



THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter

June 30, 2006



KPMG LLP
450 East Las Olas Boulevard
Fort Lauderdale, FL 33301

**Management Letter in Accordance with the
*Rules of the Auditor General of the State of Florida***

The Honorable Chairperson and Members of
the School District of Palm Beach County, Florida:

We have audited the financial statements of the School District of Palm Beach County, Florida (the School District), as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated January 11, 2007, which was modified to refer to our reliance on the reports of other auditors as it relates to the aggregate discretely presented component units.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and with the provisions of Chapter 10.800, *Rules of Auditor General*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is dated January 11, 2007, and should be considered in conjunction with this management letter.

The *Rules of the Auditor General* (Section 10.804(1)(d)1.) require that we address in the management letter, if not already addressed in the auditors' reports on compliance and internal controls, whether or not recommendations made in the preceding annual financial audit report have been followed. The recommendations made in the preceding annual financial audit report have been corrected, except for those reported under the Status of Prior Years' Observations, Recommendations, and Management's Responses (Appendix B).

As required by the *Rules of the Auditor General* (Section 10.804(1)(d)4.), the scope of our audit included a review of the provisions of Section 218.415, *Florida Statutes*, regarding the investment of public funds. In connection with our audit, we determined that the School District complied with Section 218.415, *Florida Statutes*.

The *Rules of Auditor General* (Sections 10.804(1)(d)3. and 5.) require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on compliance and internal controls: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures; and (4) failures to properly record financial transactions. We noted a certain matter involving internal control and its operation that we consider to be a reportable condition under auditing standards generally accepted in the United States of America. Reportable conditions are matters coming to our attention that, in our judgment, relate to significant deficiencies in the design or operation of internal control and could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions.



The reportable condition noted during our audit, which has been discussed with the appropriate members of management, is described in 2006-1 of Appendix A.

Although not considered to be reportable conditions, we also noted other items during our audit, which we would like to bring to your attention, which are described in Appendix A.

As required by the *Rules of the Auditor General* (Section 10.804(1)(d)2.), the scope of our audit included a review of the provisions of Section 218.503(1), *Florida Statutes*, regarding financial emergencies. In connection with our audit, we determined that the School District is not in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), *Florida Statutes*.

This management letter is intended solely for the information of the chairperson and board members, the audit committee, and management of the School District and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 11, 2007
Certified Public Accountants

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Current Year's Observations, Recommendations, and Management's Responses

| No. | Summary |
|------------|--|
| | Current year's observations |
| | Reportable Condition |
| 2006-1 | Detailed Account Analysis |
| | Other Comments |
| 2006-2 | Compensated Absences – Terminal Leave Payout |
| 2006-3 | Testing of Recovery Procedures |
| 2006-4 | Password Change Policy |
| 2006-5 | Improved Security Process |

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Current Year's Observations, Recommendations, and Management's Responses

2006-1 Detailed Account Analysis

Observation

During the course of our audit, we identified a significant number of audit entries, which were necessary in order for the School District's financial statements to be in accordance with U.S. generally accepted accounting principles, as promulgated by the Governmental Accounting Standards Board (GASB). We believe that these matters are a result of the accounting department not performing reviews and analysis of general ledger accounts to ensure that information is accurately and completely reported. This represents a deficiency in the design or operation of internal control and could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

We recommend that the accounting department analyze accounts on a periodic basis in order to ensure that they have a good understanding of what competent evidential matter supports the amounts included in the accounts. This will help identify any unusual amounts, and ensure that account balances are reported accurately, and enhance the financial reporting process.

Management's Response

Management concurs. The departure of some key accounting staff members and the dedication of time and resources to the ERP project implementation limited the department's level of account analysis. The increasing complexity of some of the District's financial transactions also requires additional analysis. The District plans to fill current accountant vacancies and provide staff development to ensure accounts are analyzed at an in-depth level on a periodic basis. This analysis should help reduce the number of audit entries identified in subsequent fiscal year audits.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Current Year's Observations, Recommendations, and Management's Responses

2006-2 Compensated Absences – Terminal Leave Payout

Observation

During the course of the audit, we noted that the School District's written policy regarding annual and sick leave payout upon separation is not consistent with the practice that has been implemented by management. The School District's practice is communicated verbally to new employees and such employees appear to be aware of the criteria for earning and vesting in terminal leave pay. This inconsistency between the written policy and the actual practice may result in an additional obligation to the School District.

Recommendation

Management should reevaluate the current written policy regarding paid time off, as well as its current practice in order to determine whether the written policy should be amended to reflect actual practice.

Management's Response

Management concurs. The policy will be amended and aligned with the current practice.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Current Year's Observations, Recommendations, and Management's Responses

2006-3 Testing of Recovery Procedures

Observation

During the course of our audit, we observed that formal testing of recovery procedures is not part of the School District's regular backup and recovery process. Backup recovery is performed on an ad-hoc basis and is initiated by incident requests. Improper backup recovery procedures may lead to inaccurate, lost, or corrupt financial data.

Recommendation

Management should establish and perform formal tests of backup recovery procedures on a regular basis to ensure that data recovered from the backup process is restored properly. These procedures will enhance the School District's internal control over the general information technology area.

Management's Response

IT Security is currently responsible for all distributed windows platforms for approximately 900 servers. The schools in the district are all being backed up daily using DoubleTake software. On several occasions some servers had to be restored as a whole system or individual files. In the data center the new blade environment has mirroring capabilities, which we have used to recover files residing on the SAN (Storage Area Network). About 100 additional servers in the data center use TSM (Tivoli Storage Manager), which we have used to backup and recover files. Currently we have not allocated set testing time or written documentation, which we will develop to target random servers to make sure the data we are saving is recoverable. This will happen over the course of the next calendar year.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Current Year's Observations, Recommendations, and Management's Responses

2006-4 Password Change Policy

Observation

During the course of our audit, we observed that the School District's policy for password maintenance can be overridden by system Superusers. The School District has a formalized policy that states that user passwords must be changed every 90 days; however, this can be overridden by the Superusers, who can reuse their previous password. If an unauthorized user were to gain access to a Superuser's password, the override of this policy may enable the unauthorized user extended access to the financial reporting system, as well as other sensitive data.

Recommendation

Management should implement a process to ensure that Superusers change their passwords in accordance with the School District's policy and are not overriding the function. Such a process will enhance the security of the School District's information system.

Management's Response

Super users and administrators with high level access now have a 90-day expiration enforced. Consequences have been emphasized to staff members who are accountable for these types of user ID's. We are looking in implementing technology to enable us to audit this type of password reset transaction. We hope to have this completed by first quarter of 2007.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Current Year's Observations, Recommendations, and Management's Responses

2006-5 Improved Security Process

Observation

During the course of our audit, we became aware of a security incident regarding the information system. It is our understanding that once the School District personnel became aware of the incident, several changes were made over the security of the information system. Specifically, the financial management application was moved to another server and protected by layered security utilizing hardware and software controls. In addition, an intrusion detection system was installed to identify any unauthorized access to financial data. These controls are consistent with normal industry standards.

Recommendation

We recommend that the School District perform testing and verification of the new controls on a periodic basis in order to ensure that no deficiencies exist as a result of the changes.

Management's Response

The District has implemented Intrusion Detection, which runs 24x7x365 as well as system vulnerability scanning, which runs daily against our PeopleSoft financial boxes. The results of the scan are reviewed daily and appropriate action is taken. Additionally we are hiring an outside vendor to run an internal and external penetration test. This will be completed within the first quarter of 2007. The District now has operating system, network, and application security protecting this environment.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

Summary

| <u>No.</u> | <u>Prior years' observation</u> | <u>Observation is still relevant</u> | <u>Observation addressed or no longer relevant</u> |
|------------|--|--------------------------------------|--|
| 1999-6 | Maintaining general and subsidiary ledgers | X | |
| 2001-6 | Maximo – Operational Budget Monitoring | X | |
| 2001-7 | Direct Journal Entries into the TERMS System | X | |
| 2001-8 | Budgeting | X | |
| 2001-9 | Vendor Master Files | X | |
| 2001-15 | IT Operations | X | |
| 2001-16 | IT Security Controls | X | |
| 2003-2 | Access to Vendor Master File | X | |
| 2004-1 | Preparing Bank Reconciliations in a Timely Basis | | X |
| 2004-2 | Detail of Debt and Supporting Schedules | | X |
| 2004-3 | Market Value Adjustment | | X |
| 2004-5 | Review and Authorization of Online Time Records | X | |
| 2005-1 | Completeness of Information Obtained from Real Estate Department | X | |
| 2005-2 | Accuracy of Schedules Provided by Capital | | X |
| 2005-3 | Reconciliation of Capital Outlay | X | |
| 2005-4 | Disposition of Capital Assets | | X |

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

1999-6 Maintaining General and Subsidiary Ledgers

Prior Years' Observation

During our review of the controls over the fixed assets of the School District, we noted that all subsidiary records are PC-based. The PC-based files cannot be interfaced with the School District's general ledger thereby necessitating a series of manual reconciliations when accounting for additions and deletions between the general ledger and the PC-based files. The manual process could result in a series of errors that if not detected could misstate the School District's financial statements.

Prior Years' Recommendation

We recommend the School District develop an automated interface between the subsidiary and the general ledger records to eliminate the potential for human error.

Prior Years' Status

This observation is still applicable in the current year. The fixed assets subsidiary records are still PC-based. See prior year's recommendation above.

Prior Years' Management's Response

We concur. The School District has completed a year-long business system and functional process review that deals with the deficiencies noted. We are in the process of completing the readiness activities that are intended to lead to the issuance of a request for proposal (RFP), which will facilitate the acquisition of enterprise resource planning (ERP) software designed to address the limitations of the current system. Until a fully integrated system is implemented, this comment will continue to be relevant. Compensating controls include a manual reconciliation at year end to adjust any differences.

2004 Status

This observation is still applicable in the current year. The capital assets subsidiary records are still PC-based.

2004 Management's Response

The School District's effort towards replacing its business systems and transforming our processes continues to move forward.

1. The District continues to make progress on several hundred specific enterprise resource planning (ERP) readiness items; the completion of which will strongly position the District for successful implementation of ERP software.
2. The District has undergone a thorough process to select ERP software. The District selected and the Board approved the acquisition of PeopleSoft software.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

3. The District is in the middle of a process to select an implementer to install and configure PeopleSoft software. We look forward to a winter 2005 implementation start date.
4. The District has established a new ERP Department where a dedicated project team has been assigned and works on an ongoing basis with functional areas to identify process change and define business rules.

We continue to believe the vast majority of findings/deficiencies related to process and/or systems issues will be addressed and corrected with the successful implementation of the new ERP software.

2005 Management's Response

The School District has contracted with the eVerge Group as the implementers of the PeopleSoft Enterprise Resource Planning System (ERP). To date, more than 120 processes have been identified and documented, covering the current way they are performed. In addition, new processes have been developed to address systemic and process issues, this one included. The new ERP system is planned to go-live on July 1, 2006 and will address the majority of these findings/deficiencies.

2006 Management's Response

The District implemented the PeopleSoft Enterprise Resource Planning System (ERP), effective May 1, 2006, which will be the system of record for Fiscal Year 2006-07. This new Accounting System has an Asset Accounting module which is fully integrated with Accounts Payable and Project Controls modules. We believe that the new system and the procedures in place will address the auditor's recommendations.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses**2001-6 Maximo – Operational Budget Monitoring*****Prior Years' Observation***

The budget within the Maximo subsidiary ledger system is split between capital projects and an operational budget. Although Maximo does provide for system spending controls for the capital projects budget, these controls are inactive for the operational budget. As a result, the capital projects budget is systematically monitored and reviewed on a regular basis while the operational budget requires additional reports generated in conjunction with the budget department to determine their budget to actual status. Furthermore, operational budget expenditures are not uploaded into the TERMS financial system real-time, but on a weekly basis as a direct journal entry resulting in delayed budgetary information for decision-making purposes. The capital projects budget is uploaded into the TERMS financial system as an encumbrance.

The lack of spending control and monitoring capability within Maximo pertaining to the operational budget may cause funds to be exceeded and go unnoticed. Additionally, the School District may have to find funds from other sources after expenditures have been made and increase the amount of budget transfers and budget amendments that require approval throughout the year. When the budget was adopted for the fiscal year 2001 there was \$25 million budgeted for maintenance within the operational budget. However, for salaries and supplies, the expenditures were exceeded throughout the year by approximately \$7.9 million. The budget was balanced monthly throughout the fiscal year by transferring most of the necessary funds from capital projects.

Prior Years' Recommendation

Management should consider the feasibility of one budgetary system to help ensure consistent application of spending controls, monitoring procedures, and the availability of timely information for the entire School District.

Prior Years' Management's Response

Management concurs. A review of business processes and systems will look specifically at this issue.

Prior Years' Status

This status has not changed although the operational budget is being monitored by Maintenance Department in conjunction with the Budget Department based on reports generated by the system.

Operational budget expenditures will be uploaded into the TERMS financial system on a daily basis in a few weeks.

Prior Years' Management's Response

The business system and functional process review has been completed. A key deliverable for this project is redesigned business processes that feature best management practices and strong internal controls. Redesigned business processes will address the need for integration and automation of operational and capital budgets as well as strong front-end controls to prevent processing errors. In addition, we are in the process of completing the

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

readiness activities that are intended to lead to the issuance of a request for proposal (RFP), which will facilitate the acquisition of enterprise resource planning (ERP) software designed to address the limitations of the current system.

2004 Status

Operational budget expenditures from the Maximo subsidiary ledger are now being uploaded into the TERMS financial system on a daily basis. This results in more timely information that facilitates decision-making.

2004 Management's Response

The School District's effort towards replacing its business systems and transforming our processes continues to move forward.

1. The District continues to make progress on several hundred specific enterprise resource planning (ERP) readiness items; the completion of which will strongly position the District for successful implementation of ERP software.
2. The District has undergone a thorough process to select ERP software. The District selected and the board approved the acquisition of PeopleSoft software.
3. The District is in the middle of a process to select an implementer to install and configure PeopleSoft software. We look forward to a winter 2005 implementation start date.
4. The District has established a new ERP department where a dedicated project team has been assigned and works on an ongoing basis with functional areas to identify process change and define business rules.

We continue to believe the vast majority of findings/deficiencies related to process and/or systems issues will be addressed and corrected with the successful implementation of the new ERP software.

2005 Management's Response

The School District has contracted with the eVerge Group as the implementers of the PeopleSoft Enterprise Resource Planning System (ERP). To date, more than 120 processes have been identified and documented, covering the current way they are performed. In addition, new processes have been developed to address systemic and process issues, this one included. The new ERP system is planned to go live on July 1, 2006 and will address the majority of these findings/deficiencies.

2006 Management's Response

The implementation of PeopleSoft Financials for Fiscal Year 2007 provides budget checking for both operating and capital expenditures uploaded from the Maximo ledger system. The District has purchased software to replace the Maximo system, which, when fully integrated with PeopleSoft, will provide real time budget checking.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

2001-7 Direct Journal Entries into the TERMS System

Prior Years' Observation

Direct journal entries conducted by the Accounting Department are not subject to system spending and balancing controls. The system edit checks have been deactivated which would prevent the posting of an unbalanced journal entry; however, the Accounting Department utilizes the journal listing and trial balance on a daily basis in order to detect funds and accounts that are out of balance. The entry of journal entries directly into the TERMS system that are not subject to spending and balancing controls, may result in unbalanced budgetary information and increase the reliance placed on manual review procedures.

Prior Years' Recommendation

Management should consider developing preventative system controls to help ensure that journal entries cannot be posted unless they are balanced.

Prior Years' Management's Response

Management concurs.

Prior Years' Status

Although the School District does utilize the panel to verify out of balance journal entries and a warning message is generated within that panel, the School District does not utilize error, edit, or exception reports to verify the data input of these direct journal entries.

Prior Years' Management's Response

The system is capable of accepting out-of-balance journal entries. However, the accounting department reviews, on a daily basis, "journal reports" that display debits and credits for transactions processed the previous business day. Exceptions are resolved immediately. This procedure is documented with the appropriate journal entry before it is filed.

The business system and functional process review has been completed. A key deliverable for this project is redesigned business processes that feature best management practices and strong internal controls. Online, real-time edits for spending controls and balancing controls will be addressed during the redesign of business processes that will be conducted during this review. In addition, we are in the process of completing the readiness activities that are intended to lead to the issuance of a request for proposal (RFP), which will facilitate the acquisition of enterprise resource planning (ERP) software designed to address the limitations of the current system.

2005 Status

This observation is still applicable in the current year.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

2004 Management's Response

The School District's effort towards replacing its business systems and transforming our processes continues to move forward.

1. The District continues to make progress on several hundred specific enterprise resource planning (ERP) readiness items; the completion of which will strongly position the District for successful implementation of ERP software.
2. The District has undergone a thorough process to select ERP software. The District selected and the Board approved the acquisition of PeopleSoft software.
3. The District is in the middle of a process to select an implementer to install and configure PeopleSoft software. We look forward to a winter 2005 implementation start date.
4. The District has established a new ERP Department where a dedicated project team has been assigned and works on an ongoing basis with functional areas to identify process change and define business rules.

We continue to believe the vast majority of findings/deficiencies related to process and/or systems issues will be addressed and corrected with the successful implementation of the new ERP software.

2005 Management's Response

The School District has contracted with the eVerge Group as the implementers of the PeopleSoft Enterprise Resource Planning System (ERP). To date, more than 120 processes have been identified and documented, covering the current way they are performed. In addition, new processes have been developed to address systemic and process issues, this one included. The new ERP system is planned to go live on July 1, 2006 and will address the majority of these findings/deficiencies.

2006 Management's Response

The District implemented the PeopleSoft Enterprise Resource Planning System (ERP), effective May 1, 2006, which will be the system of record for Fiscal Year 2006-07. The system requires that journals be entered into the system by authorized trained personnel at the originating department, revised/monitored by the accounting department, and posted by designated accountants. Journals are balanced and posted to the system, which provides a clean audit trail.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

2001-8 Budgeting

Prior Years' Observation

The School District utilizes three budgeting programs for the budgeting process:

- Resource allocation program for the schools
- Budget system for the remainder of the departments in the School District
- Capital projects reporting

Resource allocation formulas for the schools are approved by the School District's board prior to entry by the IT Department into the system. Based on these formulas, the system calculates the resources for each school. The department allocation program is used to create a "snapshot" of the current year's budget for each of the School District's departments to use as the basis for next year's budget. A budget file is created and sent via batch job to the budget system. A variance report is generated that is reviewed by the schools and departments. Any subsequent changes have to be submitted in writing and are entered into the budget system manually by the budget department.

The capital projects department utilizes a separate database to create, maintain and track their budget on a daily basis. Once the capital projects department has established their budget for the new fiscal year, a hard copy is given to the budget department for manual entry into the budget system of the School District. When the budget has been approved it is converted into journal entries and uploaded into the TERMS financial system. Manual reviews are conducted throughout the entire process.

Maintaining two separate budget programs may result in incomplete or inaccurate data being transferred from these systems into the TERMS financial system. Extensive manual review procedures are required to minimize this risk and may result in additional budget processing support costs.

Prior Years' Recommendation

Management should consider integrating the capital project's budget program into the budget system in order to minimize the risk of incomplete or inaccurate data from being transferred into the financial system. In addition, management should evaluate options to automate the process for the schools and departments to enable the submission of budget requests and changes online and reduce the manual entry of changes and the extensive manual review currently being performed.

Prior Years' Management's Response

Management concurs. This issue will be specifically addressed as part of the business process and systems review that will begin as soon as a consultant to assist is selected.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

Prior Years' Status

This observation is still applicable in the current year. There has been no change pending the completion of the business process and systems review which started in fiscal year 2003.

Prior Years' Management's Response

The business system and functional process review has been completed. A key deliverable for this project is redesigned business processes that feature best management practices and strong internal controls. The budget development process is within the scope of this project. The redesign will address the integration, data integrity, and automation issues discussed in this management comment. In addition, we are in the process of completing the readiness activities that are intended to lead to the issuance of a request for proposal (RFP), which will facilitate the acquisition of enterprise resource planning (ERP) software designed to address the limitations of the current system.

2004 Status

This observation is still applicable in the current year.

2004 Management's Response

The School District's effort towards replacing its business systems and transforming our processes continues to move forward.

1. The School District continues to make progress on several hundred specific enterprise resource planning (ERP) readiness items; the completion of which will strongly position the School District for successful implementation of ERP software.
2. The School District has undergone a thorough process to select ERP software. The School District selected and the Board approved the acquisition of PeopleSoft software.
3. The School District is in the middle of a process to select an implementer to install and configure PeopleSoft software. We look forward to a winter 2005 implementation start date.
4. The School District has established a new ERP Department, where a dedicated project team has been assigned and works on an ongoing basis with functional areas to identify process change and define business rules.

We continue to believe the vast majority of findings/deficiencies related to process and/or systems issues will be addressed and corrected with the successful implementation of the new ERP software.

2005 Management's Response

The School District has contracted with the eVerge Group as the implementers of the PeopleSoft Enterprise Resource Planning System (ERP). To date, more than 120 processes have been identified and documented,

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

covering the current way they are performed. In addition, new processes have been developed to address systemic and process issues, this one included. The new ERP system is planned to go live on July 1, 2006 and will address the majority of these findings/deficiencies.

2006 Management's Response

Capital projects are now fully integrated in the projects module of PeopleSoft Financials. School and department budgets are also housed in PeopleSoft, however, the implementation of a budget module that will allow budget development and dissemination electronically will be part of a future Phase 2 implementation.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

2001-9 Vendor Master Files

Prior Years' Observation

There are three vendor master files currently being used by the School District: one is updated and maintained by the accounts payable department in the TERMS financial system, another is a database in the procurement department utilized for electronically notifying vendors of bid opportunities, and the third is maintained by the Office of Diversity in Business Practices that works closely with the procurement department in certifying and promoting minority vendors. The TERMS Vendor Master File and the Office of Diversity Vendor Master file are currently synchronized through a real-time programming interface for vendor creation. Data fields unique to each file may not be synchronized. A decision to maintain a separate vendor master file for procurement and minority reporting purposes drove the development for two of these additional databases. Maintaining vendor master data in three separate files may result in incomplete or inaccurate data being utilized by the School District.

Prior Years' Recommendation

Management should implement procedures to help ensure that only one vendor master file is utilized and updated on a regular basis in order to avoid inaccurate data from being utilized and help ensure that all the data is centrally accessible.

Prior Years' Management's Response

Management concurs. This issue will be reviewed as part of the business process and systems review. The review will begin as soon as a consultant is selected to assist in conducting these reviews.

Prior Years' Status

Management has contracted CHAMPS software for minority vendors and is in the implementation process. Management contracted with Dunn & Bradstreet to match NAICS codes to School District vendors. IT staff has consolidated vendor information from the bid opportunities file (Purchasing) and the minority vendors file (ODBP) into one unique database in a client server environment.

Prior Years' Management's Response

Management concurs with the exception of NAICS codes that, upon further evaluation, were replaced with NIGP codes. NIGP codes align better with commodity definitions and are compatible with the CHAMPS software.

Prior Years' Status

Management has implemented the CHAMPS software for minority vendors. Management contracted with Dunn & Bradstreet to integrate the purchasing vendor master file with the Office of Business Diversity vendor master file into an Access database that only is accessible to authorized personnel within the Procurement Department and the Office of Diversity in Business Practices. This would incorporate approximately 6,000 vendors into one Access 2000 database file. Currently, there is no plan to integrate the vendors maintained within the TERMS system.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

Prior Years' Management's Response

Management concurs. A comprehensive database file currently exists and is utilized by the purchasing department and the Office of Diversity in Business Practices. This data is generated from the TERMS vendor file, which is downloaded into the CHAMPS system on a regular basis. In addition, the School District has completed a year-long business system and functional process review that deals with the deficiencies noted. We are in the process of completing the readiness activities that are intended to lead to the issuance of a request for proposal (RFP), which will facilitate the acquisition of enterprise resource planning (ERP) software designed to address the limitations of the current system.

2004 Status

This observation is still applicable in the current year.

2004 Management's Response

The District is in the process of acquiring ERP software that will address the integration, data integrity, and automation issues discussed in this management comment.

2005 Management's Response

The School District has contracted with the eVerge Group as the implementers of the PeopleSoft Enterprise Resource Planning System (ERP). To date, more than 120 processes have been identified and documented, covering the current way they are performed. In addition, new processes have been developed to address systemic and process issues, this one included. The new ERP system is planned to go live on July 1, 2006 and will address the majority of these findings/deficiencies.

2006 Management's Response

The new ERP system is live and the vendor file has moved from TERMS to PeopleSoft. The integration of vendor files has not been evaluated yet due to the amount of change that was underway at one time. Therefore, the three vendor files still exist. The process review for minority and small business vendors and for strategic sourcing will take place in the near future. The District will consider integrating the files during these reviews.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

2001-15 IT Operations

Prior Years' Observation

Security Policy and Procedures

- Documents outlining security procedures have been drafted for several systems including the financial, payroll, and personnel systems. Although some of the departments have developed security policies, a comprehensive School District-wide policy that addresses security matters from a strategic perspective for the entire enterprise has not been created. The lack of an enterprise-wide security policy allows for inconsistent procedures to be developed and potentially conflict with each other.

Security Awareness Program

- There is a limited security awareness program to educate employees on how to meet information security goals set by management. Employees and administrators are not regularly informed on security issues and procedures to make an efficient and effective response.

Security Strategy

- The current approach to security does not allow management to determine the proper response to incidents ahead of time, which would allow for appropriate and effective action.

Specific security measures and policies are rendered less effective because procedures are applied inconsistently throughout the School District. A strong security measure in one department or system can be rendered ineffective because of a weak control in a seemingly disparate or underlying area.

An inconsistent approach to implementing a security program may result in the treatment of controls on an independent basis, implementing incongruent controls, which are not interoperable with each other, and ultimately creating an unstable technology foundation. In addition, staff constantly has to be retrained on the disparate and new tools being introduced to the network.

Prior Years' Recommendation

- Management should consider creating a School District-wide security policy to provide a benchmark for implementing enterprisewide controls and procedures, which effectively and consistently restrict and monitor system access.
- A more thorough and regularly scheduled School District-wide security awareness program should be developed that leverages the security policy in order to effectively raise alertness on information asset safeguarding.
- Incident response procedures should be developed into a comprehensive. School District-wide security program.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

Prior Years' Management's Response

Management concurs. Current security policies should be integrated into an enterprise-wide security policy. Schools and departments are notified through School District bulletins, the official channel for communication of the School District.

Prior Years' Status

Partially resolved. Security Awareness is accomplished through the regular distribution of printed and emailed bulletins and "Awareness Reports" to the School District directors and school principals. All School District employees are required to sign an employment agreement that includes Sections on drug free workplace, conviction affidavit, and computer acceptable use Sections as part of their reappointment agreement. Comprehensive, School District-wide incident response procedures still need to be developed.

Prior Years' Management's Response

Enterprise-wide security procedures – Partially complete (ongoing). Current security policies will be integrated into enterprise-wide security procedures for fiscal year 2003. Due to technology advancements this will be an ongoing process.

Prior Years' Status

Continued resource restraints have challenged the resolution to this issue. However, the School District is in the process of recruiting a Chief Technology Officer (CTO) for the purpose of leading in the forming of a framework to address IT infrastructure, resource and security needs. The goals of the newly formed position will include incorporating more effectively the existing dispersed security policy and awareness programs into an enterprisewide security policy and awareness program.

The recent virus outbreak which impacted the School District network for more than 24 hours highlights the need for a robust and focused security awareness and incident response program that educates the School District population on how to identify and effectively respond to security threats. The CTO will also be tasked with helping to ensure that the incident response procedures are aligned into an effective security program to adequately address risks to the School District IT infrastructure in a timely manner.

Resource and budget constraints have not been in line with the additional requirements imposed by the introduction of new schools and IT demands to the IT and network departments. These resource limitations do not allow for the alerting and response to incidents across the organization in a consistent, timely, and effective manner.

It is recommended that the new CTO position have sufficient involvement in the budgetary planning process to allocate sufficient resources to address vulnerabilities that place the School District network and systems at risk.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

Prior Years' Management's Response

The departments within the division will work closely with the Chief Technology Officer (CTO) to develop a strategic security plan with appropriate funding and resources to help ensure that the risk of intrusion will be mitigated.

In addition, the School District has completed a yearlong business system and functional process review that deals with the deficiencies noted. We are in the process of completing the readiness activities that are intended to lead to the issuance of a request for proposal (RFP), which will facilitate the acquisition of enterprise resource planning (ERP) software designed to address the limitations of the current system.

2004 Status

The new CTO for the Division of Information Technology has restructured the organization to place more emphasis on enterprise security.

2004 Management's Response

The Board approved the job description for the Director of Security on July 19, 2004. Once resources are in place, the security issues will be addressed.

2005 Management's Response

The District recruited a Director of Security. A strategic security plan was implemented and a Policy and Procedures manual prepared and presented to the Audit Committee on August 12, 2005. Security incidents are now handled and coordinated by the Information Security Department.

2006 Management's Response

A District policy has been drafted to address network usage, software, passwords, internet and remote access. Our Legal Services department is currently reviewing the draft policy. After legal review, the policy will be brought the School Board for approval in 2007.

In addition, a detailed incident reporting procedure has been developed internally and approved by senior management.

The School District's security awareness program now includes user tips, bulletins, site visits, and various programs including a hacking contest slated for the first quarter of 2007. As part of this program, rewards will be offered to individuals that bring system vulnerabilities the School District's attention.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

District communication regarding security has also been heightened. A board workshop on security was held in 2006. This workshop was video taped and televised throughout the School District. The Superintendent now chairs a weekly district technology meeting to discuss various IT issues and review system performance and security metrics. The principals' monthly technology meeting also provides a forum to communicate current security issues to all school principals. Several arrests were made and highly publicized during the course of the year hopefully deterring future malicious behavior. Links to identify Phishing scams and a video message from a convicted student hacker was made available on the School District's home page.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

2001-16 IT Security Controls

Prior Years' Observation

Our review of the IT security controls indicated that:

- Management is redesigning the current network perimeter – the access points between the School District network and the Internet – in order to reduce the current risks to the School District network associated with externally initiated connections being answered by internal servers. Servers such as the e-mail, Web, and domain name servers should be located in a “buffer zone,” also known as a “demilitarized zone,” to reduce the exposure to internal network. With this design of the network perimeter, no traffic originating from the Internet or other untrusted networks would enter the internal School District network. Servers exposed to the Internet are contained in a separate logical network.
- Currently, the School District is utilizing the intrusion detection feature of the existing firewall (Microsoft Internet Accelerator server) to analyze suspected attacks. However, this is not considered an adequate intrusion detection system (IDS) solution as there are numerous types of attacks that the firewall is not designed to recognize. A separate IDS has not been deployed to assist management in discovering violations of the network perimeter. An IDS is a device (or application that runs on a server) that analyzes network traffic in “real time” and responds via alerts or other methods to possible breaches of the network perimeter.

Under the current network perimeter and firewall design, untrusted and unknown traffic is entering the School District network, increasing the risk of attacks to internal systems and decreasing the ability to detect them. Traffic to the network is not being monitored, and it is not possible to determine if or how frequently it is being attacked.

Prior Years' Recommendation

- Deploy the updated design of the perimeter network and the “demilitarized zone or DMZ.”
- Conduct an information security and risk assessment to determine the types of risk to the network. Specific recommendations to reduce the exposure can be evaluated from the results of such an assessment.
- Regular scans of both perimeter and internal systems should be performed using vulnerability assessment tools to confirm the effectiveness of the firewall and intrusion detection system.

Prior Years' Management's Response

Management concurs with the need for improved perimeter security as indicated by our preaudit redesign and its deployment that is currently underway.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

Management concurs that conducting an information security and risk assessment would determine the types of risk to the network. However, the perimeter redesign and the recent overhaul of the McAfee Deployment Server mitigate the risk of exposure significantly. Specific recommendations to further reduce the exposure could be evaluated from the results of such an assessment. Therefore, this assessment will be conducted as resources (personnel and budget) become available.

Management concurs that regular scans of both perimeter and internal systems should be performed using vulnerability assessment tools to confirm the effectiveness of the firewall and intrusion detection system. This procedure will be developed and implemented subject to budget and manpower limitations.

Prior Years' Status

Partially resolved. The School District has purchased a second Microsoft ISA firewall to provide redundancy to its network perimeter control. The network perimeter design has been updated to include a DMZ where all public or Internet facing servers are placed. Additional steps toward network security will be taken which will include the installation of an IDS and regular network vulnerability scans.

Prior Years' Management's Response

Partially resolved. The School District has purchased a second Microsoft ISA firewall to provide redundancy to its network perimeter control. The School District is investigating more robust security firewall devices (currently piloting Netscreen's 500cs) and will deploy based on budget and resources. The network perimeter design has been updated to include a DMZ where all public or Internet facing servers are placed.

Additional steps toward network security will be taken which will include the installation of an IDS and regular network vulnerability scans.

Prior Years' Status

The School District has purchased a set of redundant firewall and content filtering appliances and implemented architecture to address the weak network perimeter configuration from previous years.

As evidenced by strains placed on the majority of the School District by the recent virus, there is a need to create and adequately fund a program to assess the risks and to regularly test the security program and controls protecting the School District infrastructure.

Prior Years' Management's Response

The departments within the division will work closely with the chief technology officer to develop a strategic security plan with appropriate funding and resources to assure risk of intrusion will be mitigated.

2004 Status

For two years the School District has utilized Netscreen 500 which is an intrusion detection system (IDS) for the network perimeter.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

The new CTO for the Division of Information Technology has restructured the organization to place more emphasis on enterprise security.

2004 Management's Response

The Board approved the job description for the director of security on July 19, 2004. Once resources are in place, the security program and controls for protecting the School District's infrastructure will be enhanced. Trial systems being used for IDS & IPS include ENTERSYS-Dragon device and SNORT.

2005 Management's Response

The Information Security Department has successfully tested, implemented, and currently uses 24x7, a Cisco advanced Intrusion Prevention system at the gateway of our network. All attempt incidents are monitored and investigated.

2006 Management's Response

Tipping Point Intrusion prevention, Iron Mail e-mail filtering, BlueCoat Internet filtering, and daily Qualys system vulnerability scanning are currently implemented as well as two layers of virus protection and failover firewalls. Encryption using SSL (Secure Socket Layer) and authentication certificates are being used for our ERP system and web applications. Monitoring tools are being acquired and more advanced logging is being tested.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

2003-2 Access to Vendor Master File

Prior Years' Observation

We noted that five employees have been granted access to change and update vendor master data within TERMS. Of those, four employees also have been granted access to enter invoices and issue checks within TERMS. In addition, changes to the vendor master file are not reviewed or monitored.

Lack of systemic controls to segregate setup and validation of payee information from payment execution may lead to unauthorized posting of transactions to the general ledger, unauthorized payments, unauthorized changes to master data, and limited ability to authenticate which employee performed or approved a transaction.

Prior Years' Recommendation

Staff should not be able to setup a new vendor or change existing vendor (payee) information and also make a payment to that vendor, without appropriate review by a second party to verify that the vendor is valid and the payment amount is correct based upon a valid invoice. Management should undergo an assessment of job roles and responsibilities and redefine existing user profiles to separate the role of validating vendor and payee information from that of executing disbursements within TERMS.

Prior Years' Management's Response

Management concurs. This recommendation has been addressed by eliminating the Supervisor of Accounts Payable and the Manager of Financial Services access to the Vendor Master File (VMF). There are only two employees with access to modify the VMF when granted and the system keeps track of the changes performed by each employee, including date and time. We requested a biweekly report of all changes performed by each of these employees to the VMF. This report is provided to the Supervisor of Accounts Payable on the following Monday to verify if changes were granted. Also, before any payment is performed, there is an audit process in place to verify correctness of disbursements. Please contact us if you need additional information or details.

In addition, the District has completed a yearlong business system and functional process review that deals with the deficiencies noted. We are in the process of completing the readiness activities that are intended to lead to the issuance of a request for proposal (RFP), which will facilitate the acquisition of ERP software designed to address the limitations of the current system.

2004 Status

There are only three employees with access to modify the VMF when granted and the system keeps track of the changes performed by each employee, including date and time. The Supervisor of Accounts Payable verifies if changes were granted on the Monday following the change.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

2004 Management's Response

The School District's effort towards replacing its business systems and transforming our processes continues to move forward.

1. The School District continues to make progress on several hundred specific ERP readiness items; the completion of which will strongly position the District for successful implementation of ERP software.
2. The School District has undergone a thorough process to select ERP software. The District selected and the Board approved the acquisition of PeopleSoft software.
3. The School District is in the middle of a process to select an implementer to install and configure PeopleSoft software. We look forward to a winter 2005 implementation start date.
4. The School District has established a new ERP Department where a dedicated project team has been assigned and works on an ongoing basis with functional areas to identify process change and define business rules.

We continue to believe the vast majority of findings/deficiencies related to process and/or systems issues will be addressed and corrected with the successful implementation of the new ERP software.

2005 Management's Response

The School District has contracted with the eVerge Group as the implementers of the PeopleSoft ERP. To date, more than 120 processes have been identified and documented, covering the current way they are performed. In addition, new processes have been developed to address systemic and process issues, this one included. The new ERP system is planned to go live on July 1, 2006 and will address the majority of these findings/deficiencies.

2006 Management's Response

Changes made as part of the implementation of the new ERP system which went live for Fiscal Year 2007 have addressed these concerns. The management of the vendor file has moved from accounts payable to purchasing. Purchasing has established a separate team which works on vendor, p-card, and technical issues. No member of this team processes requisitions or purchase orders. Systematic controls are now in place.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Years' Observations, Recommendations, and Management's Responses

2004-5 Review and Authorization of Online Time Records

Observation

During the course of the audit, we observed that the principals do not always document their review and authorization of the online employee time record.

Recommendation

We recommend the principals explicitly evidence their review in the payroll system. The documentation of the review and authorization of the online employee time record will provide evidence that employee is compensated for the correct number of hours worked and that labor hours are being allocated to proper jobs.

2004 Management's Response

Management concurs. The majority of the principals do approve their payroll timely, however, we could have some that do not meet this deadline. We are going to reactivate the procedure of sending notice to the locations that do not approve their payroll timely, with a copy to the area offices. The notice will also request the principal to send an e-mail to the payroll manager, certifying that they have reviewed the payroll and approved it.

2005 Management's Response

The reactivation of our procedure of sending notices to locations that do not approve their payroll timely, with copy to the area offices, was very successful. The number of instances of delayed or nonapprovals have reduced drastically. In addition the School District has contracted with the eVerge Group as the implementers of the PeopleSoft Enterprise Resource Planning System (ERP). To date, more than 120 processes have been identified and documented, covering the current way they are performed. In addition, new processes have been developed to address systemic and process issues, this one included. The new ERP system is planned to go live on July 1, 2006 and will address the majority of these findings/deficiencies.

2006 Management's Response

The School District implemented the PeopleSoft ERP, effective May 1, 2006, which will be the system of record for Fiscal Year 2006-07. This new Accounting System has a Payroll module which is integrated with Accounts Payable and Time Administration modules. Employee's time worked has to be recorded into this module prior to becoming payable time, from which the payroll is processed to create pay checks. A check will not be created without the principal's in-system approval. We believe that the new system and the procedures in place will address the auditor's recommendations.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Year's Observations, Recommendations, and Management's Responses

2005-1 Completeness of information obtained from the Real Estate Department

Observation

During the course of the audit, we noted that the School District does not maintain adequate and complete records of historical land purchases. Upon further discussion with management, we learned that the Capital Asset Section is notified of real estate transactions through the use of "notice of site acquisition" or "notice of sale or transfer of real property" and that the capital asset section did not receive a particular notice and has no procedures in place other than inquiry to ensure all notices are received.

Recommendation

The real estate department should use prenumbered forms and keep a control log of all forms used. The capital asset section can then perform a review to ensure they have received all of the notices for the current fiscal year. Such a reconciliation process will help to ensure the completeness of data and may enhance the financial reporting process.

2005 Management's Response

Management concurs. Real estate will develop a control log and use a sequential numbering series for all transactions (purchases, swaps, donations, and retirements). The control log will be provided periodically to the accounting department for capital assets to assure that all land transactions are properly recorded.

2006 Management's Response

The real estate department implemented a sequential numbering system to the "notice of site acquisition" and "notice of sale or transfer of real property" reports on January 1, 2006. The numbering system has the year and sequential number starting with one at the beginning of each year.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter in Accordance with the
Rules of Auditor General of the State of Florida

June 30, 2006

Status of Prior Year's Observations, Recommendations, and Management's Responses

2005-3 Reconciliation of Capital Outlay

Observation

During the course of the audit, it came to our attention that a timely reconciliation is not performed between capitalized capital outlay and noncapital capital outlay. A detail of capital outlay expenditures is manually reviewed to determine capital versus noncapital expenditures. The current process results in a manual and time-consuming effort to compile the information at year end with opportunity for human error.

Recommendation

The School District should implement a process to reconcile capital and noncapital capital outlay. All schedules should be reviewed and agreed to supporting documentation prior to input into the financial statements. A process over reconciling capital outlay will help improve capital project's control over the School District's assets, and enhance management financial reporting process.

2005 Management's Response

Management concurs. The reconciliation of capital versus noncapital expenditures is an improvement the School District will realize from the implementation of the PeopleSoft ERP System. With regard to the specific PeopleSoft expenditures, the value of the PeopleSoft asset includes the software purchase plus the consulting fees for the implementation costs. The \$6 million represents implementation costs, which have been manually added to the software costs. Future consulting fees will be properly tracked and added to the value of the asset for fiscal year 2007 and until the PeopleSoft ERP System implementation is finalized.

2006 Management's Response

The School District implemented the PeopleSoft ERP, effective May 1, 2006, which will be the system of record for Fiscal Year 2006-07. This new Accounting System has a separate ledger known as the F Accrual Ledger. Asset additions are accounted for in this ledger. The accounting process recognizes assets and adjusts the capital outlay expenditures accordingly, in the individual funds, for financial statements purposes. We believe that the new system and the procedures in place will address the auditor's recommendations.

