THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Management Letter

June 30, 2007
Management Letter in Accordance with the 
Rules of the Auditor General of the State of Florida

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

Ladies and Gentlemen:

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, 2007, and have issued our report thereon dated January 23, 2008, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We have issued our Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is dated January 23, 2008, and should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.800, Rules of the Auditor General, which govern the conduct of local governmental District School Board audits performed in the State of Florida and, unless otherwise required to be reported in the Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters, this letter is required to include the following information:

The Rules of the Auditor General (Section 10.804(1)(d)1.) require that we address in the management letter 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)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.

No deteriorating financial conditions were noted as referred to in Rules of the Auditor General in Section 10.804(d)(3).

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 the Auditor General (Section 10.804(1)(d)5) requires disclosure in the management letter of the following matters: (a) violations of laws, rules, regulations, and contracts and grant agreements or
abuse that have occurred, or are likely to have occurred and were discovered within the scope of the financial audit; (b) improper expenditures discovered within the scope of the financial audit; (c) deficiencies in internal control of inconsequential effect in relation to the financial statements; and (d) other recommendations to improve the School District’s present financial management, accounting procedures, and internal controls.

In planning and performing our audit of the financial statements of the School District, in accordance with auditing standards generally accepted in the United States of America, we considered the School District’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School District’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the deficiency included in Appendix A to be a significant deficiency in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control. We believe that the deficiency included in Appendix A does not constitute a material weakness.

Although not considered to be significant deficiencies or material weaknesses, we also noted items during our audit that we would like to bring to your attention that are included in Appendix A.

* * * * * * *

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 23, 2008
Certified Public Accountants
THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

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

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2007-1 IT General Controls

Observation
Inquiry of IT General Controls surrounding the new PeopleSoft system identified control design, as well as a lack of key controls around significant risk points within Access to Programs and Data, Program Changes, and Program Development Processes. Lack of controls around the development process adversely affected the PeopleSoft financial management system functionality, its respective data conversions, and potentially the integrity of financial data within the PeopleSoft system. The July 2006 PeopleSoft deployment subsequently had a negative effect on general systems access controls, segregation of duties, and controls relating to program change processes. Therefore, we determined that IT General Controls could not be relied upon.

Recommendation
We recommend that management perform a thorough assessment of the design of IT General Controls. Controls should be designed to reflect the new PeopleSoft systems and processes and adequately mitigate risks within systems access, segregation of duties, program development, and program changes. Some suggestions include:

- Conduct an access control and segregation of duties analysis of the PeopleSoft system
  The School District of Palm Beach County, Florida (the School District) hires, transfers, terminates, and changes the job duties of employees throughout a fiscal year. Given these changes, the School District should conduct quarterly reviews of access rights within the PeopleSoft system. Additionally, the School District should perform a segregation of duties analysis quarterly to help identify individuals who may have control or access over two or more steps of sensitive transactions.

- Enable audit logging of access controls in PeopleSoft
  The School District should log changes to security profiles that result from new hires, transfers, terminations, and/or a change in job duties. Combined with regular access reviews, appropriate logging of changes between reviews would help determine access was appropriately restricted and segregated throughout the fiscal year without having to perform labor intensive system restores. Systematic logging is preferred to manual logging for a more effective control.

- Strengthen documentation of future changes in PeopleSoft
  The School District should require the retention of documentation that would evidence that fact that the changes were tested and approved by management prior to promoting them to the production environment. Examples of appropriate documentation may include executed test scripts with successful results, a log of all changes (requested, tested, approved, and implemented), and/or production change approval forms.

- Conduct a thorough postimplementation assessment of the PeopleSoft implementation
  Given the issues encountered during and after the PeopleSoft implementation, the School District should perform a postimplementation assessment of the PeopleSoft system to baseline and document that the system
performs to specifications. A thorough assessment combined with a strong change control process would provide greater assurance that the systems are operating effectively.

Management's Response

Access control and segregation of duties analysis of the PeopleSoft system

We concur with the audit recommendations. The District will review general ledger permission lists quarterly to ensure only appropriate users have access to the financial system.

The Information Technology Security Department is responsible for issuing all user access to the ERP Financial and Human Resource PeopleSoft applications. The department has adopted the Application Access Audit Procedure from the Mainframe and modified a copy of it geared for the PeopleSoft applications. The procedure states that a complete list of users and their access levels is printed or emailed to the Department Heads and Principals on an annual basis beginning the 2nd quarter of 2008. Due to the size of the user community (28,000+) it is not feasible to complete a review of all users and access levels quarterly. Historically obtaining the responses just for Terms Application takes over two months. The list is returned to the IT Security Department, wherein each school or department has three weeks to return the listing to IT Security after it has been reviewed, signed off, dated and any modifications noted.

Enable audit logging of access controls in PeopleSoft

We concur with the audit recommendation. Currently we are tuning the production databases. Once the system has been properly stabilized the staff will review the ability to turn on the audit logging function for select tables. Audit logging will impact system utilization, memory and storage requirements. The District will research which audit logging functions provide sufficient information to monitor access to the security profiles.

Strengthen documentation of future changes in PeopleSoft

We concur with the audit findings. The District has taken steps to improve controls in the areas of IT Management and Project Management by instituting the Information Technology Infrastructure Library (ITIL) methodology and establishing a Project Management Office. In FY 2007 and 2008 the following achievements have been made in this effort:

- 37 Staff Trained in ITIL Foundations
- 33 Staff Certified in ITIL Foundations
- Change Gear Change Management Software installed and in use
- 68 Staff Trained in IT Change Management (Change Gear)
- 15 ERP Staff Trained in IT Change Management (Change Gear)
- Project Management Office (PMO) established
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- 52 employees received 42 credit hours of Project Management Institute certified training.

A formal change control process has been established. The process includes the following:

- A Request for Change (RFC) is entered into ChangeGear including description, impact, test plan, and back-out plan.
- Electronic Notification is sent to the known stakeholders.
- Approval workflow is followed prior to change commitment.
- Weekly Change Advisor Board (CAB) meeting discusses the proposed change and accesses global impact.
- Approved changes are moved into production at predefined time.
- History of all changes is maintained in the ChangeGear electronic database.

*ITIL Definition Statement*

ITIL stands for the Information Technology Infrastructure Library. This industry standard is a library that outlines a comprehensive and consistent set of process-based best practices for IT Service Management and Delivery. ITIL provides customizable framework of best practices to achieve quality service and overcome difficulties associated with the growth and complexity of IT systems. As a result of widespread adoption worldwide, ITIL has become the de facto standard in IT Service Management.

**Conduct a thorough post implementation assessment of the PeopleSoft implementation**

Management supports the auditor’s recommendation to conduct a post implementation assessment of the PeopleSoft Phase I implementation. Management has completed a post implementation review of the time and labor rules and is in the process of reviewing capital projects and internal funds billing. The District will document each review as performed.
Current Year’s Observations, Recommendations, and Management’s Responses

2007-2 Accounts Payable Cut Off

Observation

During the testwork, we noted that the School District’s procedures related to accounts payable and related expenditures do not include a systematic process to capture invoices that are not vouchered at the period end. However, we understand that in order to compensate for this, management evaluated subsequent disbursements over $100,000. This process also did not capture all of the liabilities.

Further, we noted that the School District does not reconcile the accounts payable balance to an accounts payable listing at the fund level to ensure that such a listing exists that can support the funds’ general ledger and balance sheet accounts payable amounts.

Recommendation

Although the amounts identified were not material to the financial statements, we recommend that procedures be implemented to record all liabilities in the proper period.

Further, we also recommend that management implement a process and procedure to summarize and evaluate payables at the fund level in a manner consistent with financial reporting and documentation requirements.

Management’s Response

Management reviewed all checks paid subsequent to year end through September 30, 2007 greater than or equal to $100,000. During the audit KPMG requested a quantification of checks paid less than $100,000 for the same period not accrued at year end. Based on an analysis performed by management the amount identified was not material and was passed on during the audit process. The District will implement additional procedures including a review of all open purchase orders at year end to identify potential liabilities not recorded at year end.

Management has a process in place to reconcile the accounts payable sub ledger to the general ledger. The system generated report is broken down by vendor and invoice. When the invoice is input by accounts payable an entry is made to debit the funding strip from the purchase order or miscellaneous payment request form. The system generates an automatic offset to accounts payable in the same fund. The funds would not balance if the offset did not occur, in addition the system will not post an unbalanced entry. Based on tests performed, the District is confident the system is operating as designed. Management will continue to provide KPMG a breakdown of the accounts payable detail by fund (as was provided in the current year) to facilitate the year end audit process but will not add a reconciliation by fund as part of the month end close.
2007-3 Review of Journal Entries

Observation
During our testwork, we noted that certain journal entries were not reviewed and approved by an appropriate level of senior management prior to input into the general ledger system.

Recommendation
All journal entries should be approved by the controller or accounting manager prior to input into the general ledger system. Unusual entries of a material amount should be reviewed by the CFO. Adequate documentation supporting the entry should be attached to allow the CFO to perform an effective review. The review should be documented by initialing or signing the journal entry.

Implementation of review procedures for journal entries will reduce errors in the general ledger and improve financial reporting.

Management’s Response
Management agrees journal entries should be reviewed and approved prior to posting. Prior to the start of the audit, management reviewed the different options for journal entry approval within PeopleSoft. Management has begun the testing phase and will soon implement the journal entry process workflow. The workflow allows management to establish approvals based on a dollar threshold. Due to the volume of journal entries posted on a daily basis, manager review will only be required on journal entries based on an established dollar threshold. All other journal entries will be reviewed by an accountant separate from the preparer.
## Summary

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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.
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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 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.

2007 Management’s Response

Stabilization of the new ERP system is progressing well and we are just now beginning to discuss the inclusion of information regarding the minority and small business vendors as well as the strategic sourcing option. These new features will go through a priority process to determine their priority for the organization and will be planned and implemented accordingly. The District will incorporate the design of a new consolidated vendor database into the planning required to implement this additional functionality.
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 that 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. 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 System, effective May 1, 2006, which will be the system of record for fiscal year 2006-07. This new Accounting System has a Payroll module that 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.

2007 Management’s Response
As part of the PeopleSoft ERP system, system approval is required by all department heads and principals prior to processing. The District maintains the ability to mass approve payroll, since the District cannot withhold pay as a result of not having a system approval by one or more principals or department heads. The District is
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currently testing a report to identify which principals or department heads are not approving payroll timely in order to send follow up notices.
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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.

2007 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 June 30, 2007. The numbering system has the year and sequential number starting with one at the beginning of each fiscal year. The implementation of this procedure will provide completeness of information per the audit recommendation. In addition, the accounting department will be added to the email distribution list and the signed purchase/sale agreement will be forwarded once finalized to ensure the proper accounting for each transaction.
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.

2007 Management’s Response
Policy 3.20 Resignation and Termination of Employment was revised and adopted by the Board on January 16, 2008. This policy requires the employee to complete a resignation/termination form (PBSD 1176) which includes securing payout information from the employee. School and department secretaries are trained on this procedure as a part of the official Human Resources training program. Payout information can be found under sections 4 and 5 of the adopted policy.
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.

2007 Management’s Response
We still concur with the audit recommendation and have established a policy for Testing of Recovery Procedures which includes an outline for random testing.
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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.

2007 Management’s Response

We concur with the audit finding and have been testing the audit capability of Tivoli, the Identity Management Application currently undergoing implementation. When the full system audit functions go live, every time a user changes their password, they are notified of the change by E-mail. All administrative or Superusers will be placed in a group where an E-Mail will go to the individual as well as to the IT Security department. This mailbox will be continuously monitored for password changes and suspicious events will be researched. This function will go live during the 2nd quarter of 2008.
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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.

2007 Management’s Response

Qualys Inc. was selected as choice for Palm Beach County schools for an end-to-end solution to discover all devices and applications across the network, internally and externally, and to identify and eliminate the security threats that make network attacks possible. Customized penetration scans are done on our systems every day. Specific groups of addresses including the ERP PeopleSoft environment as well as the web servers are scanned completely on a scheduled basis. Qualys also provides findings and direct links to sites for remediation. Due to the sensitive nature of the detailed scans they will be provided only upon request.