

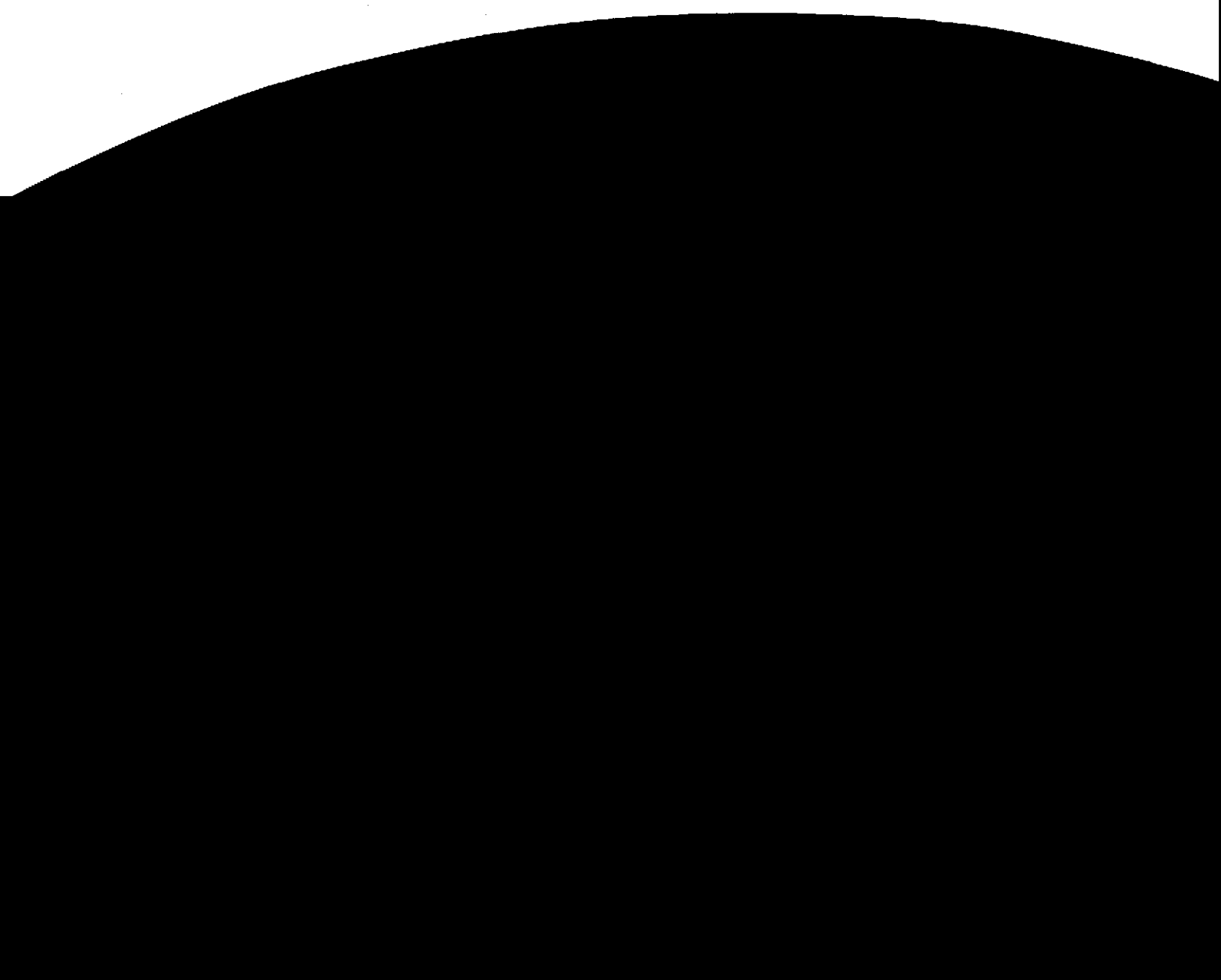
**McGladrey & Pullen**

Certified Public Accountants

**Palm Beach County, Florida**

Management Letters

09.30.2006



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### Management Letters

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County-Wide

Clerk and Comptroller

Property Appraiser

Sheriff

Supervisor of Elections

Tax Collector

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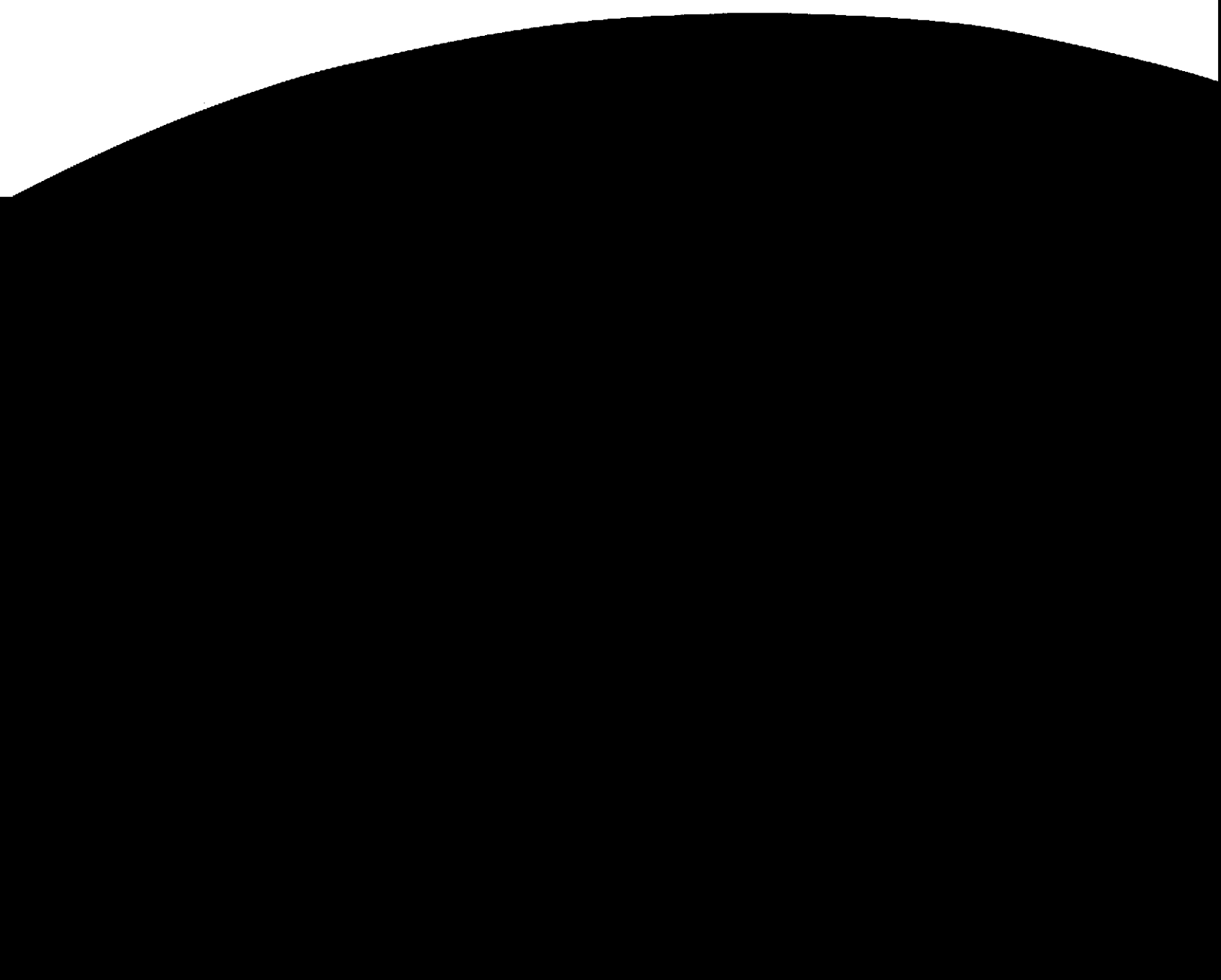
**McGladrey & Pullen**

Certified Public Accountants

## **Palm Beach County, Florida**

County-Wide Management Letter

09.30.2006



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# McGladrey & Pullen

Certified Public Accountants

**Management Letter Required By  
Chapter 10.550 of the Rules of the  
Auditor General of the State of Florida**

To the Honorable Members of the Board  
Of County Commissioners  
Palm Beach County, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Palm Beach County, Florida (the County) as of and for the year ended September 30, 2006, and have issued our report thereon dated March 26, 2007. We did not audit the financial statements of the Solid Waste Authority, a major enterprise fund, which represents 27% of the total assets and 48% of total revenues of the business-type activities. We also did not audit the financial statements of the Housing Finance Authority, a discretely presented component unit, which represents 60% of the total assets and 48% of the total revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Solid Waste Authority and Housing Finance Authority, is based on the reports of the other auditors. Our report does not address their respective internal control or compliance.

We have issued our Independent Auditor's Report on Internal Control Over Financing Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, and Independent Auditor's Report on Compliance with Requirements Applicable to each Major Federal Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports dated March 26, 2007, should be considered in conjunction with this management letter.

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 OMB Circular A-133 *Audits of States, Local Governments, and Non-profit Organizations* and the requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement*. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which require that certain items be addressed in this letter. Those items are as follows:

Unless otherwise addressed in other auditor reports:

1. A statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.

During the course of our audit of the financial statements of the County we noted that appropriate action had been taken upon certain recommendations and suggested accounting procedures as outlined in the prior year's Management Letter. Those comments have not been repeated. Prior year comments that were not implemented or were only partially implemented in the current year have been repeated in Appendix B to this report.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The County's policy regarding the investment of public funds follows the requirements of Florida Statutes. In connection with our audit, we determined that the County complied with Section 218.415, Florida Statutes, relating to local government investment policies.

3. Recommendations to improve the County's financial management, accounting procedures, and internal controls.

Recommendations to improve the County's financial management, accounting procedures and internal controls are reported in Appendix A to this report.

4. Matters that are not clearly inconsequential, considering both quantitative and qualitative factors including the following:
  - a. Violations of laws, rules, regulations and contractual provisions or abuse that have occurred, that were discovered within the scope of the audit.
  - b. Improper or illegal expenditures discovered within the scope of the audit that may or may not materially affect the financial statements.
  - c. Deficiencies in internal control that are not reportable conditions including, but not limited to: (1) improper or inadequate accounting procedures, (2) failures to properly record financial transactions, and (3) other inaccuracies, shortages, defalcations and instances of fraud discovered by, or that came to the attention of the auditor.

We noted some compliance violations with some of the County's grant programs. We have issued a separate report dated March 26, 2007, on compliance and internal control over financial reporting.

5. The name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements.

This information is disclosed in Note 1 of the County's financial statement.

- 6a. A statement as to whether or not the County met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.

In connection with our audit, we determined that the County is not in a state of financial emergency as a consequence of the conditions described by Section 218.503(1), Florida Statutes.

- 6b. A statement as to whether or not the annual financial report for the County filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2006.

The financial report filed with the Florida Department of Financial Services is in agreement with the annual financial audit report.

6c. Financial condition assessment procedures were applied pursuant to Rule 10.556(7).

We noted no deteriorating financial condition pursuant to Rule 10.556(7). It is management's responsibility to monitor the County's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information of the County Commission, and management of the County, federal and state awarding agencies, 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.

*McGladrey & Pullen, LLP*

West Palm Beach, Florida  
March 26, 2007

**Palm Beach County, Florida**

**Appendix A – Current Year Recommendations to Improve  
Financial Management, Accounting Procedures  
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**No. Current Year's Observations**

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**Information Support Services**

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ML 06-1 Application Security  
ML 06-2 Data Security  
ML 06-3 Output Data Access  
ML 06-4 System Access  
ML 06-5 Physical Control Access

**Water Utilities Department**

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ML 06-6 Application Security  
ML 06-7 Data Security

**Department of Airports**

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ML 06-8 Appraisal of Fixed Based Operator Building Additions  
ML 06-9 Passenger Facility Charges (PFC) Revenue Recognition

**Office of Financial Management & Budget**

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ML 06-10 Transfers of Completed Projects from CWIP to Infrastructure  
ML 06-11 Recording Capital Assets in the Proper Period  
ML 06-12 Risk Management: Adjustments to Loss Report for Worker's Compensation Claims  
ML 06-13 Risk Management: Control over Completeness of Workers Compensation Claims  
ML 06-14 Inventory: Valuation Support  
ML 06-15 Cash Receipts: Securing Assets  
ML 06-16 Allowed Activities- Highway Planning and Construction Grant Program  
ML 06-17 Allowed Activities- Highway Planning and Construction  
ML 06-18 Cash Management - Community Development Block Grants  
ML 06-19 Reporting - Community Development Block Grants

**Clerk to the Board of County Commissioners**

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ML 06-20 Payroll: Segregation of Duties  
ML 06-21 Payroll: Time Card Audits  
ML 06-22 Prepaid Insurance  
ML 06-23 Equity: Use of Restricted Funds  
ML 06-24 Conduit Debt



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**CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

**Information Support Services**

**ML 06-1 – Application Security**

Criteria: Effective application security relies on a security structure that includes the use of the following:

- Available security features in the software;
- Security administration procedures developed and documented for the granting, revoking and reviewing of data and resource access.

Condition: There were aspects of security management that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Board information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues which included the following:

- Certain important security features available in the application software had not been utilized;
- Certain Board of County Commissioner ("Board") staff had the capability to perform incompatible duties. We noted an instance of questionable employee access privileges that should be made more restrictive by the Board to enforce an appropriate segregation of duties. This issue was immediately addressed and corrected;
- An active application user account that may have had excessive privileges. This item has been reviewed and corrected.

Cause: Certain important security features available in the application software had not been utilized due to assuming that required security functionality was present during initial installation. Other causes include similarity of access profiles and timeliness of profile definition.

Effect:

- Unauthorized access to the application;
- Segregation of incompatible duties is fundamental to the reliability of an organization's internal controls;
- Appropriate segregation of duties can assist in the detection of mistakes or errors and potential fraud;
- An appropriate division of roles and responsibilities prevents the possibility of a single individual subverting a critical process.

Recommendation: We recommend management implement the following corrective actions:

- Appropriate application security control features to enhance security over its data and programs;
- Review and enhance established procedures that periodically review the duties and access capabilities of staff and implement, to the extent practicable, proper segregation of duties and access levels to ensure that personnel are performing only those duties established for their respective jobs and positions.

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Management's Response:

Information Support Services (ISS) Response: Management concurs with the recommendation and has contacted the application vendor who indicates that enabling identified security features will not adversely effect operations. ISS is in the process of determining the actions required to implement the recommendation.

Clerk Response: Management concurs with the recommendation. Current procedures require that at least once per year, Department Directors review their staff's access to the Financial and Payroll systems to validate the users in their departments and their access levels, to ensure that there is segregation of duties and appropriate access granted. Existing procedures will be reviewed to improve the frequency and scope of the reviews so that discrepancies, if any, can be found and corrected promptly.

**ML 06-2 Data Security**

Criteria: Effective database security relies on a security structure that includes the use of the following:

- Security features available in the software;
- Security administration procedures developed and documented for the granting and revoking of data and resource access.

Condition: There were aspects of security management that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Board information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues which included the following:

- Certain important security features available in the database software had not been utilized;
- Instances of active database user accounts they may not be required to perform existing operations.

Cause:

- Certain important security features available in the database software had not been utilized due to assuming that required security functionality was present during initial installation;
- Insufficient coordination and communication.

Effect:

- Limitations in existing written policies and procedures for these functions increases the risk that the functions will not be carried out as management intended.
- Unauthorized access to the application and data.

Recommendation: Management should implement the following corrective actions:

- Activate the identified database security control features to enhance security over its data and programs;
- The policies and procedures should be reviewed periodically and updated as needed for organizational and system-related changes to help ensure that management requirements are met by Board staff when performing assigned tasks.

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Management's Response:

ISS Response: Management concurs with the auditor's first recommendation and will activate the identified security feature in both databases once testing in the development databases is complete. Additionally, ISS will increase auditing on critical tables in both applications and enable password parameters where supported by the applications. Management also concurs with the second recommendation and has confirmed operational accounts, has removed stale accounts, and is working with the Clerk and Comptroller's Office to finalize a procedure for maintaining user accounts. Additionally, user roles have been adjusted to minimize privileges, unnecessary database links have been removed, and table privileges will be granted to a role established for each application where applicable.

Clerk Response: This issue is the responsibility of ISS and no action is required by the Clerk and Comptroller.

**ML 06-3 Output Data Access**

Criteria: Proper security of computer systems output data includes measures to limit physical access to those individuals requiring the data to perform their job functions.

Condition: We noted an instance of inappropriate access to computerized data output. Upon notification, Management corrected this issue by reviewing and revising the process. Specific details of this issue are not disclosed in this report to avoid the possibility of compromising Board information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified.

Cause: Management oversight of physical access risks.

Effect: Unauthorized use, disclosure of proprietary information, or loss of data.

Recommendation: Management should implement a plan to ensure computerized output of data is properly secured and controlled.

Management's Response:

ISS Response: Management shall pursue distributing reports containing sensitive information through electronic means using documents on demand or alternative methods of distribution for printed output to ensure sensitive information is only accessible to authorized staff.

Clerk Response: This issue is the responsibility of ISS and no action is required by the Clerk and Comptroller.

**ML 06-4 – System Access**

Criteria: Proper security of computer systems includes measures to limit physical access to resources to those individuals requiring access to perform their job functions and periodic reviews of those accesses to ensure they remain appropriate.

Condition: The Board had not established formal policies and procedures for approving and periodically reviewing physical access within all organizations.

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Cause: Security to the Board's IT resources is both physically and electronically restricted and controlled by another Department. There was insufficient interdependent coordination and communication between departments.

Effect: The absence of written policies and procedures for these functions increases the risk that the functions will not be carried out as management intended.

Recommendation: Management should implement a plan to ensure that policies and procedures are in place for security-related functions within the organization and also with interdependent entities.

Management's Response:

ISS Response: Management concurs with the auditor's recommendations and is working with the Access Control and other departments to establish a procedure for approval and review of access assigned to maintenance staff.

Clerk Response: This issue is the responsibility of ISS and no action is required by the Clerk and Comptroller.

**ML 06-5 Physical Control Access**

Criteria: Proper security of computer systems includes measures to monitor visitors to the data center.

Condition: During our initial site visit, operations staff was not consistently logging visitors to the data center.

Cause: Limitations in existing written policies and procedures for these functions increases the risk that the functions will not be carried out as management intended.

Effect: Unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: The policies and procedures should be reviewed periodically and updated as needed for organizational and system-related changes to help ensure that management requirements are met by Board staff when performing assigned tasks.

Management's Response:

ISS Response: Management concurs with the auditor's recommendation and will limit access to the data center to one doorway and reaffirm with staff and hosted agencies the requirement to log visitors and vendors.

Clerk Response: This issue is the responsibility of ISS and no action is required by the Clerk and Comptroller.

## Palm Beach County, Florida

### Appendix A – Current Year Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls

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#### Water Utilities Department

##### ML 06-6 – Application Security

Criteria: Effective application security relies on a security structure that includes the use of the following:

- Available security features in the software

Condition: There were aspects of security management that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Water Utilities Department information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues which included the following:

- Certain important security features available in the application software had not been utilized.

Cause: Certain important security features available in the application software had not been utilized due to assuming that required security functionality was present during initial installation.

Effect: Unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: We recommend appropriate application security control features be implemented to enhance security over its data and programs.

Management Response: Management of the Water Utilities Department agrees and is in the process of enabling the identified security features.

##### ML 06-7 – Data Security

Criteria: Effective database security relies on a security structure that includes the use of the following:

- Security features available in the software;
- Security administration procedures developed and documented for the granting and revoking of data and resource access.

Condition: There were aspects of security management that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Water Utilities Department information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues:

- Certain important security features available in the database software had not been utilized.
- The Water Utilities Department had not established formal policies and procedures for certain security controls: the granting, revoking, and maintenance of user access; employee termination procedures; and the periodic review of user access.
- Instances of active database user accounts they may not be required to perform existing operations.

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Cause:

- Certain important security features available in the database software had not been utilized due to assuming that required security functionality was present during initial installation.
- Insufficient coordination and communication.

Effect: The absence of written policies and procedures for these functions increases the risk that the functions will not be carried out as management intended and possible unauthorized access to applications through obsolete user accounts.

Recommendation: Management should implement the following corrective actions:

- Appropriate database security control features to enhance security over its data and programs.
- Develop a plan to ensure that policies and procedures are in place for security-related functions within the organization and also with interdependent entities. The policies and procedures should be reviewed periodically and updated as needed for organizational and system-related changes to help ensure that management requirements are met by Water Utilities Department staff when performing assigned tasks

Management's Response: Management of the Water Utilities Department agrees and is in the process of investigating and enabling identified security features. Management is also developing policies and related procedures for security related functions.

**Department of Airports**

**ML 06-8 – Appraisal of Fixed Based Operator Building Additions**

Criteria: Capital assets acquired through donation, contribution, or through other nonreciprocal activity, should be recorded at its estimated fair value at the date of the exchange.

Condition: We noted that the County, along with the Department of Airports, does not have a formal policy regarding the method to be used when recording the fair value of capital assets received in a nonreciprocal exchange from third parties. Consequently, capital assets received by the County via contributions from the Department of Airport's Fixed Based Operators ("FBO's") were not valued through independent appraisals, but through a mathematical formula which may not have necessarily provided a fair value of the capital asset. In addition, we noted other instances where the Department engaged a third party appraisal to derive the value of other capital assets.

Cause: The lack of a formalized capital asset valuation policy.

Effect: The amount of buildings transferred in the current year was approximately \$15.6 million. The amount of the building capitalized to the accounting records could be incorrectly valued.

Recommendation: We recommend that the Department adopt a formalized policy, which should be consistently applied, that specifically outlines the method to be used when fair valuing capital assets.

Management's Response: The Department will develop a formalized policy regarding valuation of capital assets.

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**ML 06-9 – Passenger Facility Charges (PFC) Revenue Recognition**

Criteria: Accounting Principles Generally Accepted in the United States of America (“GAAP”) requires that revenues should be recorded on the accruals basis so that performance of the entity is recognized by economic events rather than when the cash transactions occur.

Condition: Passenger Facility Charges (“PFC’s”) are being recorded as revenue when the PFC fees are remitted from the Airline companies (cash basis), rather than by matching the revenues to their associated costs (accruals basis).

Cause: The Department does not obtain sufficient information from the Airline Companies to determine which period the PFC revenues relate to.

Effect: The Airport is improperly recognizing PFC revenue.

Recommendation: We recommend that the Department recognize PFC revenues on the accruals basis and that they establish policies and procedures to ensure this information is properly tracked and recorded.

Management's Response: The Department is agreeable to a limited methodology to accrue PFC revenue; we will review and accrue any subsequent payments by airlines after September 30 which relate to the prior fiscal year. The Department is not agreeable to estimation beyond this method as PFC revenues are based on net ticket sales, which is not available to the Department. It should be noted that this new procedure will require additional staff time and will increase the complexity of the year end closing process.

**Office of Financial Management & Budget**

**ML 06-10 – Transfers of Completed Projects from CWIP to Infrastructure**

Criteria: The County is required to record and depreciate its infrastructure and general capital assets (i.e. roads and bridges).

Condition: The County maintains a Construction Work in Process (“CWIP”) account for all capital projects that are in process and not substantially complete. When a project is certified as complete, the County's policy is to then transfer the project out of CWIP and into the respective depreciable asset categories.

There were several infrastructure assets that were completed but had not been transferred from CWIP to a depreciable asset category. Infrastructure assets of approximately \$44.5 million were added during fiscal year 2006. Approximately \$44.4 million (17 of the 20 transfers) should have been transferred to infrastructure (depreciable capital asset) in the prior year (fiscal year 2005). The \$44.4 million of infrastructure assets that were completed in prior fiscal year resulted in approximately \$1.5 million in depreciation expense that should have been recorded in the previous period.

The County had a similar finding in the prior years (Comment 04-01 and 05-01).

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Cause: Per discussions with County personnel, these assets were from completed CWIP projects and were posted by a Fixed Asset (FA) document to an accounting line that did not have a program code. When any transaction posts without a program code, the Cost Accounting Journal is not updated (although the Accounting Journal is updated). Since the County uses the Cost Accounting Journal to track CWIP, it is necessary to post a manual transaction for each of these assets.

Effect: The overall effect resulted in infrastructure assets being understated and CWIP overstated in FY 2005 by approximately \$44.4 million and depreciation expense being understated by approximately \$1.5 million that should have been recorded in the prior fiscal year.

Recommendation: M&P recommends that Fixed Asset Management Office (FAMO) should at least meet quarterly with department heads to identify projects that should be transferred from CWIP into depreciable asset categories. A representative from FAMO or Office of Financial Management & Budget (OFMB) should be responsible for following up with the departments regarding completion of required forms and attendance of the quarterly meetings. Additional analysis should be taken at fiscal year end, to follow-up with the engineering department regarding completed infrastructure projects. We recommend controls be established to ensure project codes are included prior to adding an asset to the system; therefore ensuring Accounting and Cost Journals are appropriately updated for each transaction entered. These processes are important for the timing of recording infrastructure (along with other CWIP projects), which also affects the proper recording of depreciation expense to appropriate periods over the assets life.

Management's Response: Sufficient procedural and policy guidelines already exist to accomplish the essential requirements. However, we agree that universal compliance on the part of operating and project managing departments has not yet been achieved. While improvement has occurred, full and timely compliance remains inconsistent. To facilitate better compliance, the Fixed Assets Management Office ("FAMO") has provided departmental fiscal staff responsible for infrastructure reporting with well-organized, detailed and summarized reports whereby they can regularly advise FAMO on the status of their projects in a simplified, straightforward manner.

PPM No. CW-F-062 contains provisions which aid the communication from project managers/operating departments to FAMO and the Budget Division. Additionally, FAMO has undertaken a more focused approach with departmental fiscal representatives for those departments involved with infrastructure projects. Accordingly, all infrastructure-related entries were posted with accounting guidance from the Finance Department after the Engineering Department notified FAMO of the project completion status for specific infrastructure projects.

**ML 06-11 – Recording Capital Assets in the Proper Period**

Criteria: Capital assets (i.e. buildings and equipment) are recorded when acquired and placed in service.

Condition: During testing of capital additions, we noted approximately \$2.5 million of capital assets additions added in the current fiscal year, but the expenditures related to these capital assets were incurred in the prior year (fiscal year 2005). These items should have been recorded as capital asset additions in the previous fiscal year.

Cause: Per inquiry with County personnel, these capital asset additions were not recorded in correct fiscal year because the paper work was not submitted to the Fixed Asset Management Office ("FAMO") in a timely manner to record the capital assets by the cutoff date.



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Effect: At the Government-Wide level, \$2.5 million of capital assets and net assets for the prior fiscal year were understated due to the assets not being recorded in the proper period. The failure to record these assets in proper period resulted in approximately \$85,000 of depreciation expense not being recognized in the prior year.

Recommendation: We recommend that the County establish a policy and procedure to ensure the timely recording of all capital asset additions.

Management's Response: Sufficient procedural and policy guidelines already exist to accomplish the essential requirements. However, universal compliance on the part of operating and project managing departments has not yet been achieved. While improvement has occurred, full and timely compliance remains inconsistent. To facilitate better compliance, the Fixed Assets Management Office ("FAMO") has provided departmental fiscal staff involved with infrastructure reporting well-organized, detailed and summarized reports whereby they can regularly advise FAMO on the status of their projects in a simplified, straightforward manner.

PPM No. CW-F-062 contains provisions which aid the communication from project managers/operating departments to FAMO and the Budget Division. Additionally, FAMO has undertaken a more focused approach with departmental fiscal representatives. Pertaining to the sitework for the Riverbend/Reese Grove Park project, FAMO was notified in September 2006 that it was substantially complete. FAMO then processed the entry into the Improvement Other Than Buildings depreciable asset category. All of the aggregate costs for the project were accumulated in the project in accordance with standard CWIP accounting practices.

**ML 06-12 – Risk Management: Adjustments to Loss Report for Worker's Compensation Claims**

Criteria: Loss reserves should be adjusted when claims are closed; reviewed and adjusted based on information provided from the County's Workers Compensation attorney or payment information; and reviewed for appropriateness on a quarterly basis.

Condition: During testing of the County's Loss Report, we noted the Loss Report included 315 closed claims with total reserves of \$441,842. The largest closed claim had a reserve of \$120,318 (Claim #85-260) and several claims (Claim #93-84, #96-840, #03-202, #04-205) each had reserves between \$17,000 and \$20,000. These claims were closed claims at fiscal year end 2006 and the reserve amounts in the loss report should have been eliminated.

We noted there was no review or adjustment of the reserves in the Loss Report based on information from the County's Workers Compensation attorneys. We noted that there was a significant difference between the attorney estimate of the Workers Compensation loss reserve verses what was recorded in the Loss Report (i.e. case #03-191 had loss potential estimated at over \$1 million per the County workers compensation attorney, verses \$4,087 reported on the Loss Report. Per discussion with County personnel, there is no procedure to ensure claims handled by Worker's Compensation attorneys are updated on the Loss Report. Although the decision to record the reserve amount is made by management and may differ from the advice of counsel, there should be a formal process in place to incorporate the advice of counsel hired by the County to represent them in these cases.

There is no formal written reserve policy to support recording and adjustment of reserve amounts for open workers compensation claims. We noted open claims with negative reserve balances (open reserves included negative balances totaling -\$15,643 in medical, -\$722 in indemnity, and -\$15,699 in legal).

## Palm Beach County, Florida

### Appendix A – Current Year Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls

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It was also noted there is no supervisory review process for changes in the claim system or adjustments to the loss report (i.e. increases/decreases/status changes).

**Cause:** Clerical failure to properly close claims and lack of review for system claim status changes. The Loss Report is not being updated based on the estimates from the Worker's Compensation attorneys. The County has no written policy regarding setting and adjusting claims, nor is there a supervisor review for changes in the claim system (i.e. increases/decreases/status changes) or a year end review of the Loss Report reserve amounts.

**Effect:** Reserve figure on Loss Report is potentially misstated by the claims that have been closed, but are still being shown as open/active claims, or understatement of litigated claims and open claims could significantly affect the Loss Report and impact the calculations of estimates for claims incurred but not reported and the total estimated liability reserve.

**Recommendation:** We recommend a policy be established to help to ensure that the Loss Report be adjusted for claims that are closed to ensure claims are being properly reported. We recommend that discussions be held between Worker's Compensation Specialists, Risk Management Supervisors and the Workers Compensation attorneys regarding the required reserve levels for significant claims. The Loss Report should be updated periodically based on these discussions and as relevant information becomes known. At least annually, the Loss Report should be reviewed by management to ensure all significant Workers Compensation claims are accurately reflected and the Report contains the most current information. Risk Management should set specific guidelines for recording of reserves and maintain PPM's so claim specialists and management are aware of reserve assessment guidelines. We recommend a policy be established to help to ensure that supervisor review for changes in to the Loss Report. This would help ensure claims that are significant have been appropriately recorded in Loss Report and accurate information is being provided to the Actuary to calculate the estimated liability for self insured risks.

**Management's Response:** Management concurs with the recommendations, many of which are due to an inefficient and outdated claims system (which, as observed, occasionally failed to zero out reserves upon the closing of a claim, failed to alert the user when these errors were occurring, and was very limited in its loss reporting capabilities). Short-comings in the system were identified in Fiscal Year '04, and for Fiscal Year '05, funds were requested and budgeted to create and implement a new system equipped to provide a more traditional claims management software. The project has taken the balance of two Fiscal Year periods to complete, but is now in the beta testing phase and is expected to be fully operational by the beginning of Fiscal Year '08.

In addition, the supervisory position in the division has been re-classified from coordinator to manager level, and is now reporting to the department director, rather than the fiscal manager of the department. The manager (which is required to be a licensed workers' compensation adjuster) will be responsible for the proper reserving and regular reviewing of the claims and loss reports. A PPM will be written that will document this responsibility. Also, a reserving practice PPM is in final draft form, and will be implemented upon the completion of the claims system. Although it is not customary in the management of a workers' compensation claim for defense counsel to set individual claims reserves (rather, it is the responsibility of the claims adjuster to determine the probable ultimate cost of a claim), staff does review a sampling of litigated claims with counsel on a monthly basis, and will ensure that these reviews are factored into our reserving decisions.

**Palm Beach County, Florida**

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**ML 06-13 Risk Management: Control over Completeness of Workers Compensation Claims**

Criteria: The County should ensure all Worker's Compensation claims received at the County's Medical Clinic have been captured in the system (i.e. reported in the Loss Report).

Condition: There is no review process or policy utilized by the Risk Management department to ensure that all initial claims received at the Clinic are appropriately entered into the system. We further noted that Risk Management was unable to explain why there are missing claim numbers in the system and could not provide support for errors that may have been caused by the system (i.e. report from Clinic for deletion from system of an initial claim).

Cause: Risk Management processes claims once a bill is received from an outside party; therefore claims are not reviewed for potential reserves at the time the claim is first entered in the system by the Clinic. This procedure does not ensure that all claims initiated by the Clinic have been properly captured.

It was also noted that Risk Management does not have a review process for claims processed by the clinic. Reports from the clinic are received and put in a general file by year. The Clinic intake reports are not reviewed unless they are pulled due to a bill being received for which no current file has been established.

Effect: The understatement of reserve amounts on the loss report could significantly effect the actuarial calculation of liability, especially since new claims do not have payment histories established.

Recommendation: All new claims entered into the system by the Clinic should be reviewed by a claim specialist to ensure supporting documents have been received from the Clinic and a potential reserve has been established. The Clinic should also provide a report to the claim specialist if a claim number was deleted or system error occurred causing a gap in the system sequencing of claims.

Management's Response: We have already initiated a process for which all claims entered into the system at the clinic are reviewed by a claims specialist to ensure supporting documents have been received from the Clinic and a potential reserve has been established. The claims manager will now be reviewing these claims within 24 hours and setting the reserves.

**ML 06-14 Inventory: Valuation Support**

Criteria: Support should be maintained for inventory valuations to ensure that inventory is properly recorded at lower of Cost or Market.

Condition: In testing the pricing of inventory items, it was noted that several inventory items (General Fund – Item FIRE0115; Transportation Fund – Item # 68316; Fire Rescue – Items 680540824, 8922492, X4-17-E1; Palm Tran Inventory Item/SKU # 11-099-91028) did not have proper supporting documents to substantiate the value recorded in the inventory system.

Cause: The County has parts that had not been used or ordered in several years and the pricing information was not available.

Effect: Inventory may not be valued properly in accordance with accounting principles generally accepted in the United States of America and assets may be overstated or obsolete.

**Palm Beach County, Florida**

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Recommendation: The County should establish a procedure to periodically review items that have not been utilized during the past year and if necessary update the inventory records for obsolete items. For items maintained in inventory, price support should be maintained and reviewed to ensure items are recorded at the lower of Cost or Market.

Management's Response: The County will periodically review items that have not been utilized during the past year and, if necessary, update the inventory records for obsolete items. Price support will be maintained and reviewed to ensure items are recorded at the lower of cost or market.

**ML 06-15 Cash Receipts: Securing Assets**

Criteria: Assets should be maintained in a controlled environment to ensure they are not misappropriated, stolen, or lost.

Condition: During the internal control understanding documentation for Water Utilities cash receipts it was noted that batched checks and cash prepared for deposit were kept on top of the safe until picked up by Brinks Security for physical deposit into the financial institution.

Cause: Failure to secure items in safe provided.

Effect: Assets are maintained in an environment that could lead to assets being lost or stolen.

Recommendation: All cash receipts should be maintained in secure safe until picked up by Brinks and the County should diligently enforce control policies to ensure an environment which stresses control processes; thereby providing safeguards over County's assets at all levels.

Management's Response: The Water Utilities department has developed a PPM (CC/PG-001) to establish a policy relating to the collection and depositing of customer service revenue received in the lobby, drop boxes, mail delivery by the USPS, DTS and non-service account payments.

**ML 06-16 Allowed Activities- Highway Planning and Construction Grant Program**

Criteria: Office of Management and Budget ("OMB") Circular A-133 stipulates adequate and effective internal controls must be in place over the applicable compliance requirements. This grant program requires that Daily Activity Reports be signed by the project managers prior to submittal to ensure the accuracy of the amounts submitted.

Condition: We noted that during testing, for all 9 items selected the Daily Activity Reports were not signed by the project managers as required by OMB Circular A-133. In addition there was no procedure in place to ensure that this review and approval occurred before payment was made.

Cause: The Daily Activity Reports were filled out and submitted without the required signatures.

Effect: There is a lack of controls over compliance with allowed activities for this grant program.

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Recommendation: We recommend that the County implement stronger internal controls over allowed activity requirements.

Management's Response: We concur and will make every effort in the future to insure that all DAR's have required signatures.

**ML 06-17 Allowed Activities – Highway Planning and Construction Grant Program**

Criteria: OMB Circular A-133 stipulates adequate and effective internal controls must be in place over the applicable compliance requirements. When a contractor/consultant submits an invoice for payment, a project manager will review the invoice to verify the working being stated as completed on the invoice was indeed completed. Once the onsite reviewer approves the invoice, it is then sent to the engineering office for fiscal review. Once the fiscal clerks review the invoice for accuracy, they enter the invoice into the contract folder, prepare a check request, and then forward it to the fiscal department head for final signoff. Once that signoff has been made, the invoice and check request are sent downtown for cash disbursement.

Condition: For 6 of 14 invoices selected for testing the supporting documentation did not contain the authorized signatures.

Cause: The Daily Activity Reports which were included as supporting documentation for the invoices were filled out and submitted without the required signatures.

Effect: The County is not in compliance with internal control requirements for allowed activities according to A-133.

Recommendation: We recommend that the County implement stronger internal controls over allowed activity requirements.

Management's Response: We concur and will make every effort in the future to insure that all DAR's have required signatures.

**ML 06-18 Cash Management – Community Development Block Grants**

Criteria: OMB Circular A-133 stipulates adequate and effective internal controls must be in place over the applicable compliance requirements. Periodically, Housing and Community Development will submit a request for funds (typically quarterly but it could shorter/longer). The fiscal department will prepare a crystal report that indicates the amount of expenditures incurred that have yet to be reimbursed by the U.S. Department of Housing and Urban Development ("HUD"). The crystal report is generated directly from the Advantage system. This crystal report is used to prepare the draw down request, which is then approved by the Department Director. Once approved by the Director, the request is then sent downtown to the Clerk's office, which will actually draw down the funds from HUD.

Condition: We noted in our testing of cash management that the amount of the individual draws did not agree to the amount to be reimbursed per the general ledger system.

Cause: There was a lack of review over cash management to ensure compliance with this requirement.

Effect: The County is not in compliance with HUD's cash management requirement under this grant.

Recommendation: Policies and procedures should be established to ensure that the amount of funds drawdown is in accordance with the provisions of the grant program.

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Management's Response: We are in agreement with the findings and recommendations of the independent auditor. A new Fiscal Manager will begin work at HCD on June 25, 2007. This new position will be a considerable addition to HCD's fiscal management operations. The current fiscal analyst in charge of fiscal operations does not have the necessary expertise to adequately manage the federal disbursement system. The new Fiscal Manager will be responsible for developing appropriate policies and procedures that will ensure draw downs actually match the general ledger.

**ML 06-19 Reporting - Community Development Block Grants**

Criteria: OMB Circular A-133 stipulates adequate and effective internal controls must be in place over the applicable compliance requirements. Integrated Disbursement and Information System ("IDIS") (OMB No. 2506-0077) – Grantees may include reports generated by IDIS as part of their annual performance and evaluation report that must be submitted for the CDBG Entitlement Program 90 days after the end of a grantee's program year.

Condition: The Housing Department's expenditures reported to HUD via IDIS and the Housing Department's expenditures in Advantage did not agree. We were unable to obtain reconciliation from the client to justify the difference between the two reports. The amount reported as expenditures in the schedule of expenditures of federal awards agreed to the amount per the County's Advantage general ledger system.

Cause: There is no process in place to reconcile the amounts in the Advantage accounting system to the amounts reported in the HUD IDIS system.

Effect: The County is not in compliance with HUD's reporting requirement under the grant.

Recommendation: HCD's expenditure's reported on the Advantage (G/L) system should be reconciled to the amount reported in the IDIS system to ensure the amounts agree.

Management's Response: We are in agreement with the findings and recommendations of the independent auditor. A new Fiscal Manger will begin work at HCD on June 25, 2007. This new position will be a considerable addition to HCD's fiscal management operations. The current fiscal analyst in charge of fiscal operations does not have the necessary expertise to adequately manage the federal disbursement system. The new Fiscal Manger will be responsible for developing appropriate policies and procedures that will ensure proper reconciliation of IDIS, Advantage, Crystal, and the general ledger.

Manager will be responsible for developing and implementing a new internal control system which will facilitate proper draw down procedures and easier reconciliation.

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**Clerk to the Board of County Commissioners**

**ML 06-20 Payroll: Segregation of Duties**

Criteria: The inputting of payroll rates into the system should be performed by the Human Resource (HR) department and should be segregated from the payroll calculation function.

Condition: During testing of payroll controls, it was noted that the pay rate in the payroll system Human Resource Management System ("HRMS") requires entry/adjustments by the payroll department. Payroll personnel are aware they should not enter pay rates unless proper documentation has been received from Human Resources [which utilizes Human Resource Information System ("HRIS")]; therefore, the pay rate in HRMS should mirror the rate entered into HRIS. No exceptions were noted during testing, but the lack of integration of the HRIS/HRMS systems, and the actual ability by the payroll department to adjust pay rates without Human Resource (HR) notification creates a potential failure of control which can be alleviated by proper segregation of duties.

Cause: The County's HRIS system does not integrate into the HRMS payroll system, which requires duplicate inputting of entries (input into HRIS by HR and input into HRMS by payroll) to enter a pay rate into the system.

Effect: Potential failure of control provided by segregated duties could lead to employees not being paid the correct amounts.

Recommendation: The County should prioritize the integration (between HRMS and HRIS) requested by Human Resources. This would ensure proper segregation of pay rate initiation and payroll processing along with providing efficiency to the system by eliminating duplicate entries and necessary oversights to mitigate potential issues.

Management's Response: When payroll receives a form from county HR which requires a new pay rate for an employee, a payroll clerk verifies that the hourly rate calculates to the annual rate on the form. If the hourly rate does not calculate to the annual rate on the form, the payroll clerk informs county HR. County HR will then complete a revised form and send it to payroll. When payroll confirms that the rates are correct, the payroll clerk enters the information into the HRMS system. This information is then verified by a Payroll Specialist via an edit report. We feel that the segregation of the input function and the verification function of pay rates within payroll provides a strong mitigating control.

We concur that the integration of HRIS and HRMS should be a high priority and this will be addressed as part of the implementation of the new payroll system.

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**ML 06-21 Payroll: Time Card Audits**

Criteria: County policies state that payroll should perform periodic audits to ensure accuracy of entries from actual source documents.

Condition: Due to the fact each department (division or unit) uses various time entry systems to capture time and the departments are responsible for manually keying in entries to the HRMS/Time Server payroll system, potential errors from manual inputs can occur. To ensure departments are correctly capturing the time, payroll should be performing audits of department (unit/division) time cards. Also noted during discussions with payroll staff, management does not perform analytic assessments for time entries which could signal potential errors and mitigate the lack of department audits. No exceptions were noted during testing, but the lack of oversight on departmental time entries by payroll creates a potential failure of controls.

Cause: Payroll experienced several staffing changes and shortages, which required the Department to prioritize tasks. The pressure on staffing resulted in department/division time card audits not being performed.

Effect: Potential errors in the time entry systems could lead to incorrect payroll amounts and the over or under recording of payroll related expenditures.

Recommendation: Due to the risk of departments keying incorrect time to the system utilized by payroll, we recommend that at minimum each department segment have an audit performed at least once a year. We recommend Payroll set up a Crystal report/spreadsheet which could track time per employee at the department/division level, which then could be reviewed for abnormal time entries which could signal potential problem areas.

Management's Response: We concur with the recommendation that at minimum, each department segment should have an audit performed at least once a year. The Payroll department, once fully staffed, will resume this procedure as soon as new staff is adequately trained. The Payroll department does review abnormal or unusual time entries. Payroll staff currently receives and reviews error and exception reports every pay period. These reports identify items such as employees on FMLA, Worker's Compensation or suspension, as well as employees who have regular hours greater than their scheduled hours or employees with no gross pay. These items are reviewed by payroll staff prior to the final processing of the biweekly payroll. The payroll staff also compares the total hours for each earning type. Any hours reported for special leave types such as FMLA or Worker's Compensation are verified by payroll staff for each individual employee and that the appropriate paper work has been submitted.

**ML 06-22 Prepaid Insurance**

Criteria: Prepaid insurance should be recorded and amortized over the life of the policy.

Condition: We noted \$3,075,174 was paid in fiscal year 2005 for an insurance policy for the period 10/1/05 – 3/31/06, which should be been recorded as a prepaid asset in fiscal year 2005 instead of being expensed.

Cause: Not applying the policy to the correct fiscal year.

Effect: Expenditures of \$3,075,174 have been recorded in the prior year which related to fiscal year 2006, causing an understatement of expenditures in the current year and corresponding overstatement in the prior year.



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Recommendation: The County should analyze significant items that cross fiscal years and determine the need to record a prepaid asset for the portion of the asset related to future periods.

Management's Response: We concur with the recommendation and have implemented procedures to review all premium payments to ensure proper accounting treatment.

**ML 06-23 Equity: Use of Restricted Funds**

Criteria: Controls should be maintained to ensure restricted revenues are being utilized for intended purposes.

Condition: Per discussion with County personnel, it was determined that the County has no way of determining if restricted revenues are spent on goods and services that they have been restricted for. The current financial system does not allow expenditure to be tracked in that format. The methodology adopted by the County is all restricted revenues are used on "restricted expenditures" first and then any surplus is spent on unrestricted areas. In calculating net assets, the County used an approach that they feel is objective and systematic to calculate net assets at the year end (i.e. percentage of restricted revenues to total revenues that are received multiplied by net assets). This calculation does not take in account of expenditure types – restricted vs. unrestricted.

Cause: The current financial reporting system does not allow the County to track expenditures to ensure that restricted revenues are being spent for intended purposes.

Effect: The County is not able to track expenditure to determine if restricted revenues are being expended on items that they are being restricted for.

Recommendation: The client should investigate system upgrades or implement a new system that would allow expenditures to be appropriately tracked in regards to restricted or unrestricted revenue usage.

Management's Response: As part of the implementation of GASB 34 in fiscal year 2002, an implementation team was formed to review and address issues with the external auditors. Restricted net assets were part of that review and as a result, an objective systematic approach was developed to allocate restricted net assets. We will review our procedures and the current accounting and budget structure in the financial system and work with OFMB to make changes where appropriate.

**ML 06-24 Conduit Debt**

Criteria: The aggregate amount of all Conduit Debt obligations outstanding at fiscal year end should be disclosed.

Condition: The County has various entities and component units that have issued conduit debt. Conduit debt is debt instruments issued by a local governmental entity for the purposes of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Governments that have issued conduit debt are required to make certain disclosures in the notes to the financial statements including the aggregate amount of Conduit Debt outstanding at the balance sheet date.

Cause: The County does not maintain a record of total outstanding conduit debt.

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Effect: The County is not disclosing the amount of Conduit debt outstanding.

Recommendation: The County should track outstanding Conduit debt and disclose the aggregate amount of conduit debt obligations outstanding at fiscal year end.

Management's Response: Outstanding conduit debt of the Housing Finance Authority was disclosed. A recently obtained a list of industrial development bonds from the County Attorney's office is being reviewed by staff to be included in next year's conduit debt disclosure.

Palm Beach County, Florida

Appendix B – Prior Year Recommendations to Improve  
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No.	Prior Year's Observations	Observation is Still Relevant	Observation Addressed or No Longer Relevant
ML 04-1	Transfer of Completed Projects out of Construction Work in Progress	X	
ML 04-2	Capital Assets		X
ML 04-3	Bank Reconciliation Review and Adjustments		X
ML 04-4	Agency Fund - Deposits and Bonds		X
ML 04-5	Cash Disbursements		X
ML 04-6	Post-Closing Adjustments and Adherence to Reporting Deadlines		X
ML 05-1	Transfer of Infrastructure out of Construction Work in Progress and Depreciation	X	
ML 05-2	Due to State and Fine and Forfeiture Receipt Liability Accounts		X
ML 05-3	Purchasing and Cash Disbursement Procedures		X
ML 05-4	Capital Assets		X

## Palm Beach County, Florida

### Appendix B – Prior Year Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls

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#### 04-01 Transfer of Completed Projects out of Construction Work in Progress

Prior Year Observation: Pursuant to Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the County is required to record and depreciate its infrastructure and general capital assets (i.e. roads, bridges, buildings, etc.). The County currently maintains a Construction Work in Progress (CWIP) account for all capital projects that are in process and not substantially complete. When a project is certified as complete, the County’s policy is to then transfer the project out of CWIP and into the respective depreciable asset categories.

Upon our initial review of the CWIP detail, we noted several projects that were completed but had not yet been transferred from CWIP to a depreciable asset category. We also noted that no infrastructure related projects were identified as completed and moved out of CWIP in the last two fiscal years. As part of the year-end procedures, the Fixed Asset Management Office (“FAMO”), in conjunction with the Office of Financial Management & Budget (“OFMB”), created a form which was sent to all of the County’s department heads to help identify projects in the CWIP account that were either substantially complete or finished in order to transfer the related assets in to their respective asset categories. Due to a lack of response from various departments, a meeting was subsequently held with representatives from FAMO, budget and various department heads. The purpose of the meeting was to review the CWIP account detail and identify projects that had been completed and should be transferred into depreciable asset accounts. However, many department heads did not attend this meeting and those who did attend did not follow-up as directed by submitting the completed forms to FAMO or OFMB (i.e. Parks, Engineering, etc.). This delayed the year-end closing process and inhibited the process identifying completed projects.

Prior Year Recommendation: We recommend that FAMO set up quarterly meetings with all of the department heads in order to identify assets that should be moved out of CWIP and transferred into a depreciable asset category. A representative from FAMO or OFMB should be responsible for following-up with the department heads regarding completion of required forms and attendance at the quarterly meetings. Furthermore, additional consideration should be taken to follow-up with both the parks and engineering departments, as many of the projects included in the CWIP account pertain to these departments. This process is important as it affects the timeliness of moving completed projects into depreciable categories which in turn impacts the amounts reported related to depreciation in the County’s financial statements.

Prior Year Management Response: Regularly-held meetings with affected parties concerning capital project processing might help encourage construction managers and department fiscal staff to report on the completion of active projects more timely. Current revisions underway to PPM No. CW-F-062 will add various provisions intended to aid in the communication from project managers/operating departments to OFMB’s Fixed Assets Management Office and Budget Division.

Current Year Status: Revisions were made to PPM No. CW-F-062 (Construction Work-in-Progress Accounting Policies) in the interest of assigning ongoing reporting responsibility collectively to the project manager and operational department, using the monthly CWIP Transmittal Memo form. Additionally, the Project Close-out Procedure has been formalized in order to transfer costs from CWIP to capital asset accounts and process budget transfers, as needed, ultimately transferring the remaining unexpended project balances to reserves. We noted lack of timely transfer of completed projects out of CWIP in fiscal year 2006. See ML 06-10 for further explanation.

**Palm Beach County, Florida**

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**05-01 Transfer of Infrastructure out of Construction Work in Progress and Depreciation**

Prior Year Observation: During fiscal year 2005, the County recorded approximately \$80 million in infrastructure additions. The County used the acquisition date or completed data as provided by the engineering department and transferred the assets pertaining to completed projects to the infrastructure category from work in progress. The majority of these additions related to projects that the engineering department had noted were actually completed in prior fiscal years. The system calculated depreciation based on the acquisition date or completed date and the entire amount was recoded as an additional to accumulated depreciation expense, in fiscal year 2005. As a result, approximately \$5.1 million in depreciation expense that should have been recoded in prior periods was included in fiscal year 2005 expense.

Prior Year Recommendation: As noted in our prior year recommendation 04-01, we recommend that FAMO set up quarterly meetings with department heads in order to identify assets that should be moved out of CWIP and transferred into a depreciable asset category. A representative from FAMO or OFMB should be responsible for following-up with the department heads regarding completion of required forms and attendance at the quarterly meetings. Additional consideration should be taken to follow-up with the engineering department pertaining to infrastructure projects. This process is important as it affects the timeliness of moving completed projects into infrastructure (depreciable category) which in turn impacts the amounts reported related to depreciation in the County's financial statements.

Prior Year Management Response: The FAMO posted all entries according to the project completion dates supplied by the Engineering Department and with accounting guidance from the Finance Department. Entries were posted consistently and in accordance with the County's agreed-upon procedures for recording infrastructure additions from prior fiscal years. The computer system then captured the depreciation expense and accumulated depreciation in FY 05 as expected.

In FY 2005, additional emphasis was placed on making sure that all completed infrastructure was recognized and transferred out of work in progress. As a result, a number of projects were "closed out" that actually represented projects completed in prior years.

The previous problems noted by the auditors do not warrant meetings with all department heads but rather a more focused approach with the department fiscal representatives on those departments involved in infrastructure improvements.

FAMO will continue to address timely reporting of transfers of work in progress including meeting with individual departments and attendance at appropriate meetings with the audit planning committee as necessary.

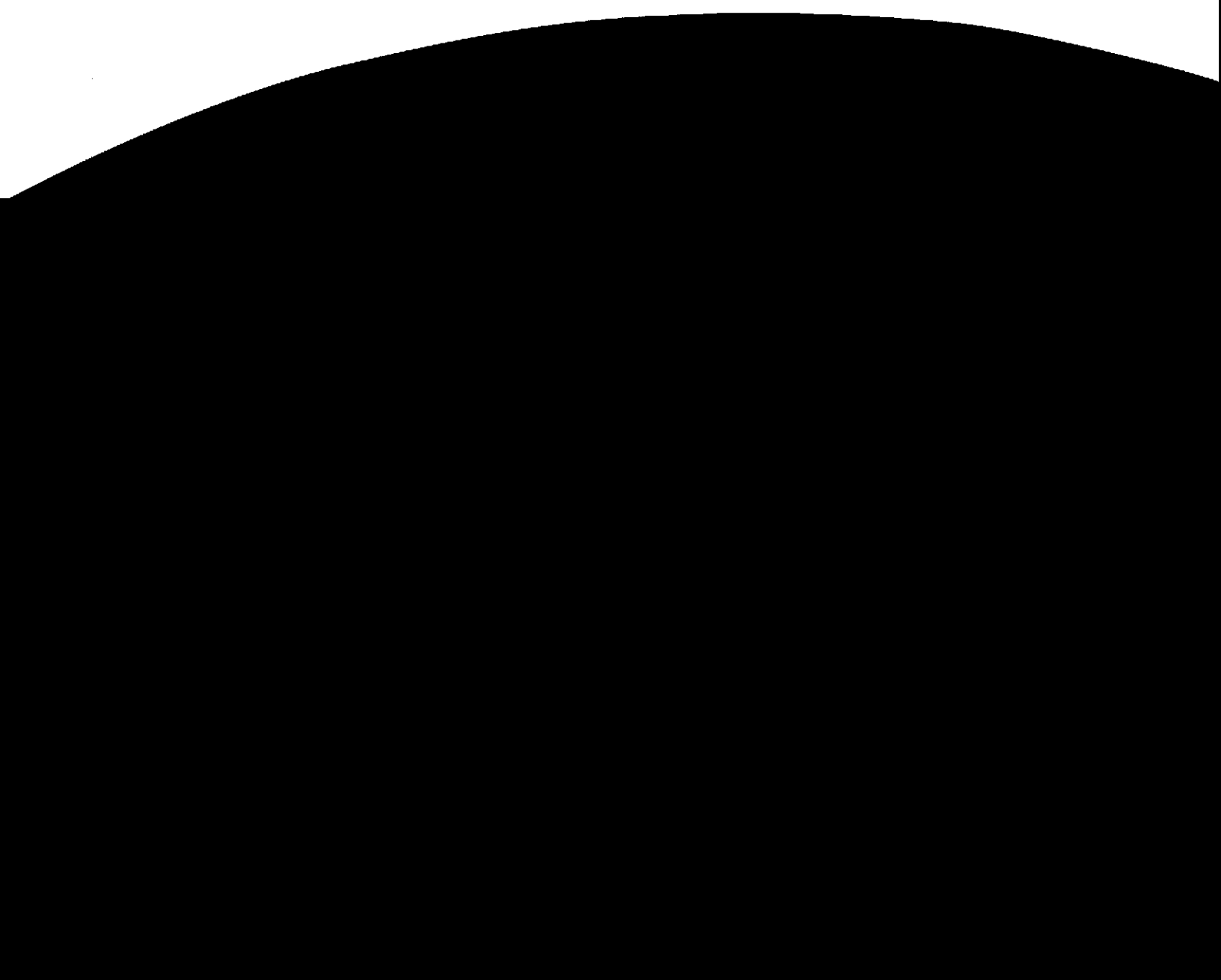
Current Year Status: We noted capital asset additions during fiscal year 2006 that were completed and should have been transferred in prior years. See ML 06-10 for further explanation.

**McGladrey & Pullen**

Certified Public Accountants

**Palm Beach County, Florida  
Clerk & Comptroller**

Management  
09.30.2006



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# McGladrey & Pullen

Certified Public Accountants

## Management Letter Required By Chapter 10.550 of the Rules of the Auditor General of the State of Florida

To the Honorable Sharon R. Bock  
Clerk and Comptroller  
Palm Beach County, Florida

We have audited the financial statements of each major fund and the aggregate remaining fund information of the Clerk & Comptroller, Palm Beach County, Florida (the "Clerk"), as of and for the year ended September 30, 2006, and have issued our report thereon dated March 26, 2007, which was prepared to comply with State of Florida reporting requirements.

We have issued our Independent Auditor's Report on Internal Control Over Financing Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report dated March 26, 2007, should be considered in conjunction with this management letter.

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. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which require that certain items be addressed in this letter. Those items are as follows:

Unless otherwise addressed in other auditor reports:

1. A statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.

During the course of our audit of the financial statements of the Clerk we noted that appropriate action had been taken upon certain recommendations and suggested accounting procedures as outlined in the prior year's Management Letter. Those comments have not been repeated. Prior year comments that were not implemented or were only partially implemented in the current year have been repeated in Appendix B to this report.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The Clerk's policy regarding the investment of public funds follows the requirements of Florida Statutes. In connection with our audit, we determined that the Clerk complied with Section 218.415, Florida Statutes, relating to local government investment policies.



3. Recommendations to improve the Clerk's financial management, accounting procedures, and internal controls.

Recommendations to improve the Clerk's financial management, accounting procedures and internal controls are reported in Appendix A to this report.

4. Matters that are not clearly inconsequential, considering both quantitative and qualitative factors including the following:
  - a. Violations of laws, rules, regulations and contractual provisions or abuse that have occurred, that were discovered within the scope of the audit.
  - b. Improper or illegal expenditures discovered within the scope of the audit that may or may not materially affect the financial statements.
  - c. Deficiencies in internal control that are not reportable conditions including, but not limited to: (1) improper or inadequate accounting procedures, (2) failures to properly record financial transactions, and (3) other inaccuracies, shortages, defalcations and instances of fraud discovered by, or that came to the attention of the auditor.

We noted no such conditions, as a consequence of our audit. We have issued a separate report dated March 26, 2007, on compliance and internal control over financial reporting.

5. The name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements.

This information is disclosed in Note 1 of the Clerk's financial statement.

- 7a. A statement as to whether or not the Clerk complied with the budget certified by the Florida Clerk of Court Operations pursuant to Section 28.35, Florida Statutes.

In connection with our audit, we noted no instances of noncompliance.

- 7b. A statement as to whether or not the Clerk complied with the performance standards developed and certified pursuant to Section 28.35, Florida Statutes.

In connection with our audit, we noted no instances of noncompliance.

This report is intended solely for the information and use of the Clerk, management of Palm Beach County, Florida, 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 those specified parties.

*McGladrey & Pullen, LLP*

West Palm Beach, Florida  
March 26, 2007

**Appendix A – Current Year Recommendations to Improve  
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<b>No.</b>	<b>Current Year's Observations</b>
ML 06-1	Application Security
ML 06-2	Data Security
ML 06-3	User Access
ML 06-4	Security Controls
ML 06-5	Impress Accounts
ML 06-6	Cash on Hand (Change Funds)
ML 06-7	Bank Reconciliations
ML 06-8	Compensated Absences

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**CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

**06-1: Application Security**

Criteria: Effective application security relies on a security structure that includes the use of available security features in the software.

Condition: There were aspects of security management that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Clerk information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues.

- Certain important security features available in the application software had not been utilized.

Cause: Certain important security features available in the application software had not been utilized due to assuming that required security functionality was present during initial installation.

Effect: Unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: We recommend the Clerk implement appropriate application security control features to enhance security over its data and programs.

Management Response: Management concurs with the auditor's recommendation and is in the process of implementing appropriate application security controls.

**06-2 Data Security**

Criteria: Effective database security relies on a security structure that includes the use of the following:

- Security features available in the software
- Security administration procedures developed and documented for the granting and revoking of data and resource access.

Condition: There were aspects of security management that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Clerk information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues.

- Certain important security features available in the database software had not been utilized.
- Testing disclosed instances of active database user accounts that may not be required to perform existing operations. (This condition was brought to managements' attention and was immediately corrected.)

Cause:

- Certain important security features available in the database software had not been utilized due to assuming that required security functionality was present during initial installation.
- The Clerk had not fully documented policies and procedures for periodic review of user access.

**Clerk & Comptroller  
Palm Beach County, Florida**

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Effect:

- The absence of written policies and procedures for these functions increases the risk that the functions will not be carried out as management intended.
- Unauthorized access to applications through obsolete user accounts.

Recommendation: The Clerk should implement the following corrective actions:

- Enable appropriate database security control features to enhance security over its data and programs.
- Review and enhance existing policies and procedures for security-related functions within the organization and also with interdependent entities. The policies and procedures should be reviewed periodically and updated as needed for organizational and system-related changes to help ensure that management requirements are met by Clerk staff when performing assigned tasks

Management Response: Management concurs with the auditor's recommendation and is consulting with the vendor to ensure changes do not impact operations. Management concurs with the auditor's recommendation and will further develop and modify existing policies and procedures for security related functions within the organization.

**06-3 User Access**

Criteria: Effective security relies on a security structure that includes consideration of organizational and operational policies. Specific procedures developed and documented for the granting and revoking of data and resource access for employee transfers.

Condition: The Clerk had not fully documented policies and procedures for reviewing user access for employee transfers. Specific details of this issue are not disclosed in this report to avoid the possibility of compromising Clerk information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues

Cause: Insufficient coordination and communication.

Effect: The absence of written policies and procedures for this function increases the risk that the function will not be carried out as management intended.

Recommendation: The Clerk should review and enhance existing policies and procedures for security-related functions within the organization.

Management Response: Management concurs with the auditor's recommendation and will implement a plan to ensure that policies and procedures are in place for security-related functions within the organization.

**Clerk & Comptroller  
Palm Beach County, Florida**

**Appendix A – Current Year Recommendations to Improve  
Financial Management, Accounting Procedures  
and Internal Controls**

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**06-4 Security Controls**

Criteria: Effective security of computer systems relies on a security structure that includes policies and procedures for the reporting and monitoring of activity.

Condition: The Clerk had not fully developed policies and procedures for certain security controls. Specific details of this issue are not disclosed in this report to avoid the possibility of compromising Clerk information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues

Cause: Policy development is on going.

Effect: Risks include the lack of management awareness, lack of agreement to specific corporate security measures, and inaccurate policies and procedures applied to information security requirements. Additionally, there would be a lack of security knowledge across the organization applying to potential opportunities for security risks.

Recommendation: The Clerk should review and enhance existing policies and procedures for security-related functions within the organization.

Management Response: Management concurs with the auditor's recommendation and will implement a plan to ensure policies and procedures are in place for security related functions within the organization.

**06-05: Impress Accounts**

Criteria: All bank accounts should be presented in the trial balance.

Condition: We noted that the Wachovia bank accounts for the North County, South County and Mid County branch offices are reconciled as of September 30, 2006, but were not presented in the trial balance.

Cause: These accounts are flow through accounts and distributed to other parties, so the Clerk did not include these balances in the trial balance.

Recommendation: We recommend that all bank accounts should be reported on the trial balance to ensure they are properly monitored.

Effect: Failure to properly list and monitor all accounts could result in failure to detect the misappropriation of assets of the County in a timely manner.

Management Response: Management concurs with the auditor's recommendation. These three bank accounts may be viewed through system on-line inquiries. These accounts are used solely as cash-clearing accounts so that the branch offices do not have to send funds through inter-office mail. This issue will be resolved by the new financial system.

Clerk & Comptroller  
Palm Beach County, Florida

Appendix A – Current Year Recommendations to Improve  
Financial Management, Accounting Procedures  
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**06-06: Cash on Hand (Change Funds)**

Criteria: All cash on hand should be verified periodically and at fiscal year end.

Condition: We noted that cash on hand (change fund) amounts reported on the trial balance as of September 30, 2006 were not audited or verified by Clerk & Comptroller staff, Audit Services or Accounting Department.

Cause: Clerical failure to verify/audit cash on hand.

Recommendation: We recommend the Clerk & Comptroller establish a policy to ensure staff verify year end balance of cash on hand (change funds) by location and obtain supervisor/branch manager's approval on forms.

Effect: Failure to properly monitor all cash on hand could result in failure to detect the misappropriation of assets of the County in a timely manner.

Management Response: Management concurs with the auditor's recommendation and has included the verification and supervisor/branch manager's approval of year end balances of cash on hand (change funds) by location in our year-end process.

**06-07: Bank Reconciliations**

Criteria: Adjustments to the bank reconciliations should be posted to the general ledger.

Condition: We noted that a difference of \$17,342,970 existed in the bank reconciliation in both the general account and the general disbursement account. The effect of these differences between the various accounts netted to zero.

Cause: The difference existed because the transfers between the accounts were not initially posted in the general ledger. A journal was made subsequent to fiscal year end to correct these differences.

Recommendation: We recommend that all transfers should be posted in the month in which they occur and all differences are reconciled prior to approval of the monthly bank reconciliations by management.

Effect: Failure to properly review and adjust accounts as part of the reconciliation process could result in errors or misstatements in the accounting and reporting system that are not detected in a timely manner.

Management Response: Management concurs with the auditor's recommendation. The reconciliation process has been modified to reconcile these two related accounts separately and insure entries are reflected in the month they occur.

Clerk & Comptroller  
Palm Beach County, Florida

Appendix B – Prior Year Recommendations to Improve  
Financial Management, Accounting Procedures  
and Internal Controls

No.	Prior Year's Observations	Observation is Still Relevant	Observation Addressed or No Longer Relevant
ML 04-1	Circuit Court Registry Reports	X	
ML 04-2	Capital Assets		X
ML 04-3	Bank Reconciliation Review and Adjustments		X
ML 04-4	Agency Fund – Deposits and Bonds		X
ML 04-5	Cash Disbursements	X	
ML 04-6	Post-Closing Adjustments and Adherence to Reporting Deadlines		X
ML 05-1	Criminal and Civil Traffic Case Initiations to the State Due to State and Fine and Forfeiture Receipt		X
ML 05-2	Liability Accounts		X
ML 05-3	Purchasing and Cash Disbursement Procedures		X
ML 05-4	Capital Assets		X

**Appendix B – Prior Year Recommendations to Improve  
Financial Management, Accounting Procedures  
and Internal Controls**

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**04-01: Circuit Court Registry Reports**

Prior Year Observation: We noted that there are errors included in the reports created by the Civil Courts Information System ("CIVIS"). The logic in the registry report created by CIVIS made it difficult for staff to reconcile the cash account and to reconcile the detailed registry report to the general ledger control account. This issue was included as a portion of comment 03-04 in the prior year's Management Letter.

Prior Year Recommendation: We recommend that the Clerk & Comptroller continue to monitor the CIVIS system output and to identify, correct, and monitor the system errors that created the reporting errors.

Prior Year Management Response: We are continuing to monitor the CIVIS system and are working with the vendor to correct system errors that have created the reporting problems. Until these problems can be resolved, we will continue with the current procedure of doing the necessary research so that the reconciliations of accounts are completed.

Current Year Status: The Clerk's Accounting Department is planning to coordinate with the ISS Department and the vendor ("ACS") to develop solutions to the logic errors in the registry report.

Current Year Management Response: The Clerk's Accounting Department will work with Clerk's IT Department to develop solutions to the logic used in this report. The existing report is used for reconciliation purposes and we recognize the need to revise this report so that manual adjustments are not necessary to reconcile to the financial system.

**04-05: Cash Disbursements**

Prior Year Observation: During our testing of the cash disbursement process, we noted that there is no formal procedure requiring Department Directors to obtain more than one vendor quote on purchases made exceeding a specified dollar threshold.

Prior Year Recommendation: We recommend that the Clerk & Comptroller, along with senior staff, identify a dollar threshold over which all purchases would necessitate obtaining quotes from at least three vendors before making a purchase. This practice will help ensure the Clerk & Comptroller is receiving quality goods and services at market competitive prices.

Prior Year Response: The Clerk & Comptroller has a Purchasing Policy and Procedure Manual. This manual does not require Department Directors to obtain more than one vendor quote on purchases made exceeding a specified dollar threshold. Prior to a purchase, Department Directors perform a comparative analysis for best quality and price. We will incorporate our current practice into the Purchasing Policy and Procedure manual.

Current Status: The Purchasing Policy and Procedure Manual is being revised to incorporate the requirement to obtain three vendor quotes for a specific dollar threshold.

Current Year Management Response: The revision of the Purchasing Policy and Procedure Manual to include the requirement to obtain three vendor quotes for a specific dollar threshold has been assigned to a Senior Accountant within the Accounting Department.

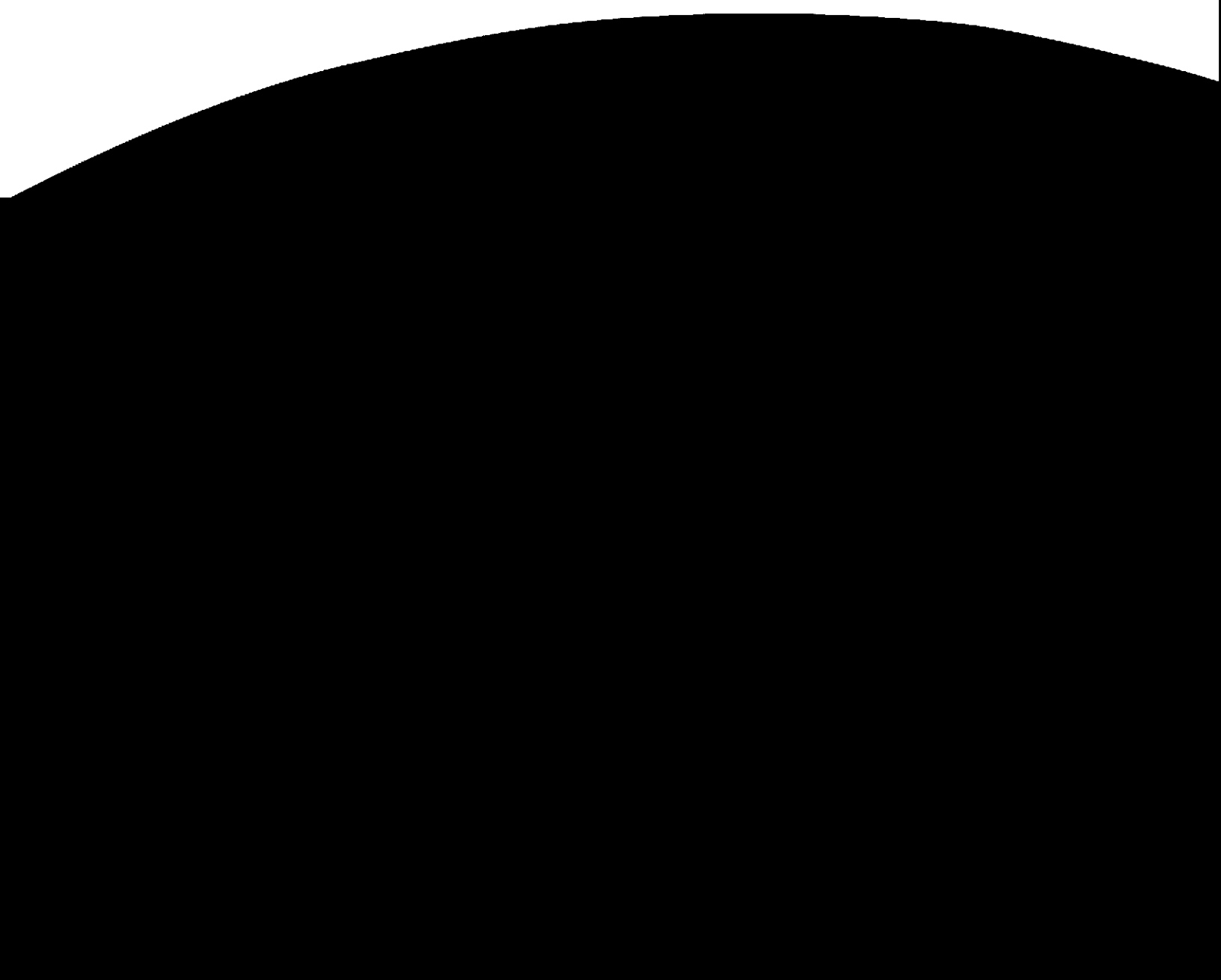


**McGladrey & Pullen**

Certified Public Accountants

**Palm Beach County, Florida  
Property Appraiser**

Management Letter  
09.30.2006



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# McGladrey & Pullen

Certified Public Accountants

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

The Honorable Gary R. Nikolits  
Property Appraiser  
Palm Beach County, Florida

We have audited the accompanying financial statements of each major fund of the Property Appraiser of Palm Beach County, Florida, (the "Property Appraiser") as of and for the year ended September 30, 2006, and have issued our report thereon dated March 26, 2007, which was prepared to comply with State of Florida reporting requirements.

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 Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, if any, which is dated March 26, 2007, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(h)1.) require that we address in the management letter, if not already addressed in the auditors' reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been corrected. There were no recommendations made in the preceding annual report.

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.), 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 Property Appraiser complied with Section 218.415, *Florida Statutes*.

The Rules of the Auditor General (Section 10.554(1)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures and internal controls. Our audit disclosed the matters discussed in Appendix A to this report.

The Rules of the Auditor General (Sections 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on compliance and internal controls and are not clearly inconsequential: (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 (for example, the omission of required disclosures from the financial statements); (4) failure to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations and instances of fraud discovered by, or that come to the attention of, the auditor. No such conditions were noted during the audit. Also, see Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.

The Rules of the Auditor General (Section 10.554(1)(h)5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1.A. of the Property Appraiser's financial statements.

This management letter is intended solely for the information of the Property Appraiser, management of Palm Beach County, Florida 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 the specified parties.

*McGladrey & Pullen, LLP*

West Palm Beach, Florida  
March 26, 2007

Property Appraiser of Palm Beach County, Florida

Appendix A  
Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls  
Year Ended September 30, 2006

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No.	Current Year's Observations
2006-01	Application Security
2006-02	Database Security
2006-03	Security Controls
2006-04	System Upgrades/Modifications
2006-05	Business Continuity Controls
2006-06	Security Access
2006-07	Security Training

## Property Appraiser of Palm Beach County, Florida

### Appendix A Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls Year Ended September 30, 2006

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#### Current Year Suggestions

##### ML 06-01      Application Security

Criteria: Effective application security relies on a security structure that includes the use of available security features in the software.

Condition: There were aspects of security management that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Property Appraiser information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues.

- Certain important security features available in the application software had not been utilized.

Cause: Certain important security features available in the application software had not been utilized due to assuming that required security functionality was present during initial installation.

Impact: Unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: The Property Appraiser should implement appropriate application security control features to enhance security over its data and programs.

Management's Response: Specified application security control features will be implemented in a test environment and migrated to production environment, provided no adverse results are found during testing.

##### ML 06-02      Database Security

Criteria: Effective database security relies on a security structure that includes the use of the following:

- Security features available in the software.
- Security administration procedures developed and documented for the granting and revoking of data and resource access.

Conditions: There were aspects of security management that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Property Appraiser information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues.

- Certain important security features available in the database software had not been utilized.
- The Property Appraiser had not established formal policies and procedures for certain security controls: the granting, revoking, and maintenance of user access; employee termination procedures; and the periodic review of user access.
- Instances of active database user accounts may not be required to perform existing operations.

Cause:

- Certain important security features available in the database software had not been utilized due to assuming that required security functionality was present during initial installation.
- Insufficient coordination and communication.

Property Appraiser of Palm Beach County, Florida

Appendix A  
Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls  
Year Ended September 30, 2006

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Impact:

- The absence of written policies and procedures for these functions increase the risk that the functions will not be carried out as management intended.
- Unauthorized access to applications through obsolete user accounts.

Recommendation: The Property Appraiser should implement the following corrective actions:

- Develop a plan to ensure that policies and procedures are in place for security-related functions within the organization and also with interdependent entities. The policies and procedures should be reviewed periodically and updated as needed for organizational and system-related changes to help ensure that management requirements are met by Property Appraiser staff when performing assigned tasks.
- Appropriate database security control features to enhance security over its data and programs.

Management's Response: Specified database security control features will be implemented in test environments and migrated to the production environment, if no adverse results are found during testing.

Vendor security procedures documentation will be integrated into an overall security procedures document.

**ML 06-03      Security Controls**

Criteria: Effective security of computer systems relies on a security structure that includes policies and procedures for the reporting and monitoring of activity.

Condition: The Property Appraiser had not established formal policies and procedures for certain security controls. Specific details of this issue are not disclosed in this report to avoid the possibility of compromising Property Appraiser information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues.

Cause: The relatively small size of the department and limited resources available.

Impact: Risks include the lack of management awareness, lack of agreement to specific corporate security measures, and inaccurate policies and procedures applied to information security requirements. Additionally, there would be a lack of security knowledge across the organization applying to potential opportunities for security risks.

Recommendation: The Property Appraiser should expedite the development and implementation of the plan to ensure that policies and procedures are in place for security-related functions within the organization.

Management's Response: The policies and procedures are divided among several staff that have documentation of their particular responsibilities, along with general policies in the Employee Handbook. All of these documents will be aggregated and reviewed, provided to Administration for review and agreement on actions to be taken when violations occur. Coordination and oversight will be performed by the Information Technologies Department.

Property Appraiser of Palm Beach County, Florida

Appendix A  
Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls  
Year Ended September 30, 2006

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**ML 06-04      System Upgrades/Modifications**

Criteria: A formalized and documented systems development life cycle methodology ("SDLC") can provide consistent guidance to all staff at all levels of skill and experience. An SDLC typically details the procedures that are to be followed when applications are being acquired, designed, developed, and implemented, as well as when they are subsequently modified. Project management is an inherent part of the SDLC process and defines the scope and boundaries for managing a project, as well as the methodology used in managing the project. The methodology, at a minimum, covers the responsibilities, task breakdown, budgeting of time and resources, milestones, check points, and approvals. Additionally, once the system is implemented, written procedures serve to document the duties of business personnel using the new systems.

Condition: The Property Appraiser did not have adequate written policies and procedures in place for tracking, evaluating, and applying patches and upgrades to systems software. Specific details of these deficiencies are not disclosed in this report to avoid the possibility of compromising Property Appraiser information in accordance with Florida Statute 281.301. However, appropriate Property Appraiser personnel have been notified of these deficiencies.

Cause: The relatively small size of the department and limited resources available.

Impact: Without an established methodology governing the maintenance of systems, management risks implementation of system modifications that may not satisfy the users' needs, meet the organization's business needs, or preserve appropriate controls. Also, in the absence of policies and procedures outlining controls and measures necessary for the quality and consistency with which the Property Appraiser's objectives are achieved, the risk is increased that management will not have a basis for determining whether directives are properly performed nor will personnel have guidelines for meeting management's expectations.

Recommendation: The Property Appraiser should develop a closed-loop change management policy.

Management's Response: The Property Appraiser's Information Technologies Department has just recently reviewed and agreed upon implementation of a new Version Control system to automate, track and control changes to all systems which are managed by our department. In addition, our current written procedures will be aggregated, analyzed and published in conjunction with all other policies and procedures.

**ML 06-05      Business Continuity Controls**

Criteria: Business continuity controls are intended to ensure continuous service to meet the Property Appraiser's business requirements, and lessen the business impact in the event of a major disruption. Business continuity planning identifies and provides information on supporting resources needed and the roles and responsibilities of those involved in the recovery process, including user department personnel.

Condition: We identified deficiencies in the Property Appraiser's business continuity controls. Specific details of these deficiencies are not disclosed in this report to avoid the possibility of compromising Property Appraiser's information in accordance with Florida Statute 281.301. However, appropriate Property Appraiser personnel have been notified of the deficiencies.

Cause: Reliance on software products.



## Property Appraiser of Palm Beach County, Florida

### Appendix A

#### Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls Year Ended September 30, 2006

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Impact: The lack of a strategy for business continuity and testing processes exposes the Property Appraiser to operational disruption.

Recommendation: The Property Appraiser should enhance its business continuity controls.

Management's Response: The Property Appraiser's systems have been configured to no single point of failure and data (database export) is taken off-site each day. A copy is maintained on-site on tape and another copy on-site on disk. Emergency courier service is available to make back-ups rapidly available in the event of data corruption in the production systems. Restoration testing is performed at least once per month and, even more frequently, as we continually create new instances of the database, which we do on a very regular basis. All of these procedures will be formally documented and included in the Information Technologies Policies and Procedures Manual.

#### **ML 06-06      Security Access**

Criteria: Effective security relies on a security structure that includes the use of policies and procedures for the granting and revoking of data and resource access.

Condition: We identified deficiencies in the Property Appraiser's security-related controls. Specific details of these deficiencies are not disclosed in this report to avoid the possibility of compromising Property Appraiser information in accordance with Florida Statute 281.301. However, appropriate Property Appraiser personnel have been notified of the deficiencies.

Cause: The relatively small size of the department and limited resources available.

Impact: Risks include unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: The Property Appraiser should implement a plan to ensure that policies and procedures are in place for security-related functions within the organization.

Management's Response: Third party access to our systems and databases is approved by me and the Property Appraiser, if the agency is external to our WAN. A Customer Service Request ("CSR") is then created for VPN access to a group of IP addresses that are in the permissible list. If the user is on the WAN, access is controlled by my department. One agency has update rights to several columns (mailing address) in a single table, approved by the Property Appraiser and defined in an Inter-local Agreement between the agencies. All others have select access only.

#### **ML 06-07      Security Training**

Criteria: Effective security relies on a security structure that includes consideration of security awareness training for all employees.

Condition: The Property Appraiser had not implemented an ongoing comprehensive security awareness and training program for new and continuing employees covering the Property Appraiser's IT resources.

Cause: The relatively small size of the department and limited resources available.

**Property Appraiser of Palm Beach County, Florida**

**Appendix A**

**Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls  
Year Ended September 30, 2006**

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Impact: The lack of a comprehensive security awareness and training program increases the risk to, and the vulnerability of, the Property Appraiser IT resources, and limits the assurance that the level of security over IT resources is adequate.

Recommendation: The Property Appraiser should develop and implement a program to provide ongoing comprehensive security awareness and training for new and continuing employees.

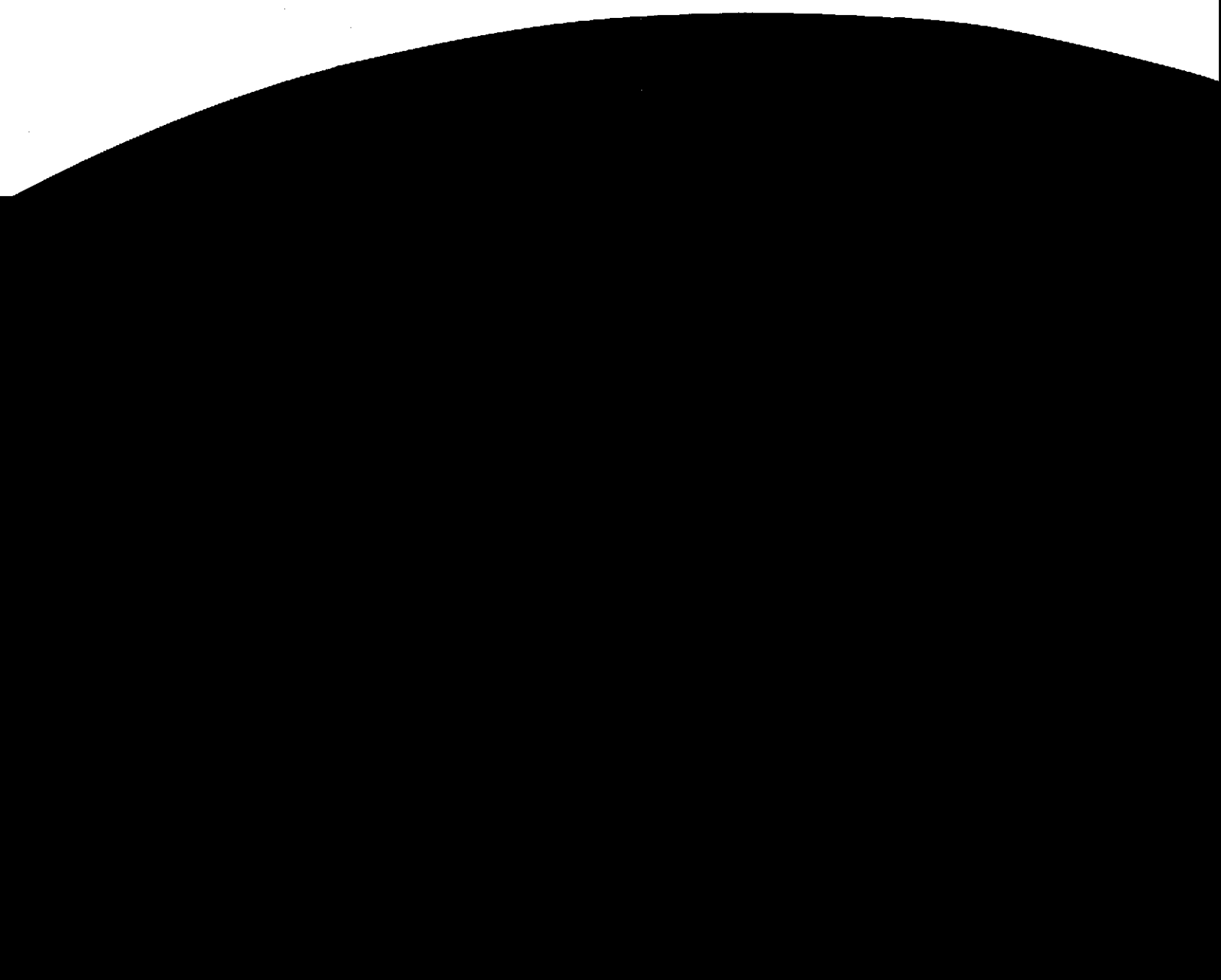
Management's Response: *With the support of Administration, we will hold security training periodically each year. Equipment is being installed in our training facilities.*

**McGladrey & Pullen**

Certified Public Accountants

**Palm Beach County, Florida  
Sheriff**

Management Letter  
09.30.2006



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# McGladrey & Pullen

Certified Public Accountants

## Management Letter

To the Honorable Ric L. Bradshaw  
Sheriff  
Palm Beach County, Florida

We have audited the financial statements of each major fund and the aggregate remaining fund information of the Sheriff, Palm Beach County, Florida (the "Sheriff"), as of and for the year ended September 30, 2006, and have issued our report thereon dated March 26, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards* issued by the Comptroller General of the United States.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554 (1) (h) 1.) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned cost, 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 addressed in the Status of Prior Year's Observations and Recommendations (see Appendix B).

The Rules of Auditor General (Sections 10.554 (1) (h) 3.) require we address in the management letter any findings and recommendations to improve financial management, accounting procedures and internal controls. The recommendations made report have been addressed in the Current Year Observations and Recommendations (see Appendix A).

The Rules of Auditor General (Sections 10.554 (1) (h) 4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs and are not clearly inconsequential: (1) violations of laws, rules, regulations and contractual provisions that have occurred or are likely to have occurred; (2) illegal or improper expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed no matters required to be disclosed by Rules of Auditor General (Sections 10.554 (1) (h) 4.).

This report is intended solely for the information and use of management of the Sheriff and the Florida Auditor General, and is not intended to be and should not be used by anyone other than the specified parties.

*McGladrey & Pullen, LLP*

West Palm Beach, Florida  
March 26, 2007

McGladrey & Pullen, LLP is a member firm of RSM International,  
an affiliation of separate and independent legal entities.

**Sheriff, Palm Beach County, Florida**

**Appendix A – Current Year Recommendations to Improve  
Financial Management, Accounting Procedures  
and Internal Controls**

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<b>No.</b>	<b>Current Year's Observations</b>
2006-01	Application Security
2006-02	Data Security
2006-03	Security Controls
2006-04	IT User Access
2006-05	Data Center Access
2006-06	IT Security Awareness

**Sheriff, Palm Beach County, Florida**

**Appendix A – Current Year Recommendations to Improve  
Financial Management, Accounting Procedures  
and Internal Controls**

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**ML 06-01      Application Security**

Criteria: Effective application security relies on a security structure that includes the use of the following:

- Available security features in the software
- Security administration procedures developed and documented for the granting and revoking of data and resource access.

Condition: There were aspects of security management that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Sheriff's Office information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues.

- Certain important security features available in the application software had not been utilized.
- Certain Sheriff's Office staff had the capability to perform incompatible duties. We noted an instance of questionable employee access privileges that should be made more restrictive by the Sheriff's Office to enforce an appropriate segregation of duties.
- Instances of active application user accounts that may not be required to perform existing operations.

Cause: Certain important security features available in the application software had not been utilized due to assuming that required security functionality was present during initial installation and reliance on other access controls

Effect:

- Unauthorized access to applications through obsolete use accounts.
- Segregation of incompatible duties is fundamental to the reliability of an organization's internal controls. Appropriate segregation of duties can assist in the detection of mistakes or errors and potential fraud.
- The absence of written policies and procedures for these functions increases the risk that the functions will not be carried out as management intended.

Recommendation: The Sheriff's Office should implement the following corrective actions:

- Appropriate application security control features to enhance security over its data and programs.
- Review the duties and access capabilities of staff and implement, to the extent practicable, a proper segregation of duties.
- Develop a plan to ensure that policies and procedures are in place for security-related functions within the organization and also with interdependent entities. The policies and procedures should be reviewed periodically and updated as needed for organizational and system-related changes to help ensure that management requirements are met by Sheriff's Office staff when performing assigned tasks.

Management Response: We agree with the recommendation, and will review processes to ensure application of the referenced security control features. Written policy and procedures will be developed as recommended.

**Sheriff, Palm Beach County, Florida**

**Appendix A – Current Year Recommendations to Improve  
Financial Management, Accounting Procedures  
and Internal Controls**

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**ML 06-02      Data Security**

Criteria: Effective database security relies on a security structure that includes the use of the following:

- Security features available in the software
- Security administration procedures developed and documented for the granting and revoking of data and resource access.

Condition: There were aspects of security management that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Sheriff's Office information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues

- Certain important security features available in the database software had not been utilized.
- The Sheriff's Office had not established formal policies and procedures for certain security controls: the granting, revoking, and maintenance of user access; employee termination procedures; and the periodic review of user access.
- Instances of active database user accounts they may not be required to perform existing operations.

Cause:

- Certain important security features available in the database software had not been utilized due to assuming that required security functionality was present during initial installation.
- Insufficient coordination and communication.

Effect:

- The absence of written policies and procedures for these functions increases the risk that the functions will not be carried out as management intended.
- Unauthorized access to applications through obsolete user accounts.

Recommendation: The Sheriff's Office should implement the following corrective actions:

- Develop a plan to ensure that policies and procedures are in place for security-related functions within the organization and also with interdependent entities. The policies and procedures should be reviewed periodically and updated as needed for organizational and system-related changes to help ensure that management requirements are met by Sheriff's Office staff when performing assigned tasks
- Appropriate database security control features to enhance security over its data and programs.

Management Response: We agree with the recommendations, and will craft a plan to a plan to implement measures to address issues identified and improve aspects of Information Systems security management.



**Sheriff, Palm Beach County, Florida**

**Appendix A – Current Year Recommendations to Improve  
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**ML 06-03      Security Controls**

Criteria: Security controls are intended to protect the integrity, confidentiality, and availability of information systems data and resources.

Condition: We noted deficiencies in certain security control features implemented by the Sheriff's Office. Specific details of these deficiencies are not disclosed in this report to avoid the possibility of compromising the Sheriff's Office information resources. However, the appropriate Sheriff's Office personnel have been notified of the deficiencies.

Cause: Certain important security features available in the database software had not been utilized due to assuming that required security functionality was present during initial installation.

Impact: Without adequate security controls in place, the risk is increased that the District's information resources may be subject to improper disclosure or modification.

Recommendation: The Sheriff's Office should implement the appropriate security control features to enhance their security.

Management Response: We agree with recommendation, and will assess the referenced security controls to help protect Information Systems data and resources.

**ML 06-04      IT User Access**

Criteria: Effective security relies on a security structure that includes consideration of organizational and operational policies. Specific procedures developed and documented for the granting and revoking of data and resource access for employee transfers.

Criteria: The Sheriff's Office had not established formal policies and procedures for reviewing user access for employee transfers. Specific details of this issue are not disclosed in this report to avoid the possibility of compromising Sheriff's Office information. However, appropriate personnel have been notified of these issues.

Cause: he Sheriff's office relied on a departmental process for access control

Impact: The absence of written policies and procedures for this function increases the risk that the function will not be carried out as management intended.

Recommendation: The Sheriff's Office should implement a plan to ensure that policies and procedures are in place for security-related functions within the organization

Management Response: We agree with the recommendation. We will implement procedures and processes to update responsibilities upon employee transfers and restrict data and resource access to that relating to current job responsibilities.

**Sheriff, Palm Beach County, Florida**

**Appendix A – Current Year Recommendations to Improve  
Financial Management, Accounting Procedures  
and Internal Controls**

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**ML 06-05      Data Center Access**

Criteria: Proper security of computer systems includes measures to monitor visitors to the data center.

Condition: The Sheriff's Office had not established formal policies and procedures for logging visitors to the data center.

Cause: Reliance on undocumented procedures.

Impact: Unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: The Sheriff's Office should implement a plan to ensure that policies and procedures are in place for security-related functions within the organization.

Management Response: We agree with the recommendation. We will formally document the sign-in policy that grants physical access to secured areas with Information Systems. This procedure has been in practice in Information Systems for many years; however, the process has never been formally documented as part of the agency wide standards and procedures.

**ML 06-06      IT Security Awareness**

Criteria: Effective security relies on a security structure that includes consideration of security awareness training for all employees.

Condition: The Sheriff's Office had not implemented an ongoing comprehensive security awareness and training programs for new and continuing employees covering the Sheriff's Office's IT resources.

Cause: Reliance on other access control methods

Impact: The lack of a comprehensive security awareness and training program increases the risk to, and the vulnerability of, the Sheriff's Office IT resources, and limits the assurance that the level of security over IT resources is adequate.

Recommendation: The Sheriff's Office should develop and implement a program to provide ongoing comprehensive security awareness and training for new and continuing employees.

Management Response: We agree with the recommendation, and will develop an ongoing agency-wide Information Security Awareness Program of training and education to employees.

Sheriff, Palm Beach County, Florida

Appendix B – Prior Year Recommendations to Improve  
Financial Management, Accounting Procedures  
and Internal Controls

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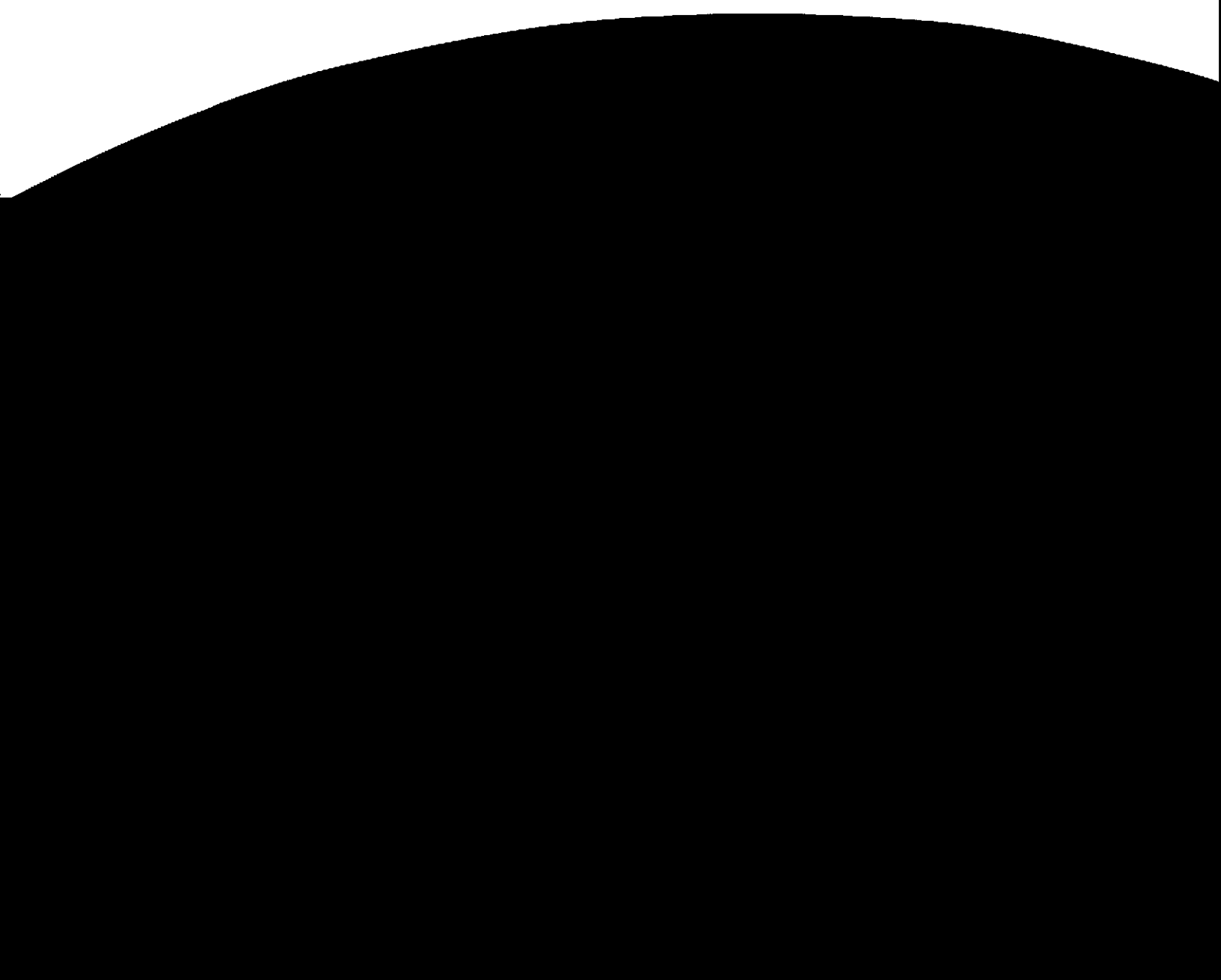
No.	Prior Year's Observations	Observation is Still Relevant	Observation Addressed or No Longer Relevant
04-01	Inmate Health Insurance		X
04-02	Compensated Absences	X	

**McGladrey & Pullen**

Certified Public Accountants

**Palm Beach County, Florida  
Supervisor of Elections**

Management Letter  
09.30.2006



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# McGladrey & Pullen

Certified Public Accountants

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

The Honorable Dr. Arthur Anderson  
Supervisor of Elections  
Palm Beach County, Florida

We have audited the accompanying financial statements of each major fund of the Supervisor of Elections of Palm Beach County, Florida (the "Supervisor"), as of and for the year ended September 30, 2006, and have issued our report thereon dated March 26, 2007, which was prepared to comply with State of Florida reporting requirements.

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 Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, if any, which is dated March 26, 2007, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(h)1.) require that we address in the management letter, if not already addressed in the auditors' reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been corrected. There were no recommendations in the prior audit report.

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.), 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 Tax Collector complied with Section 218.415, *Florida Statutes*.

The Rules of the Auditor General (Section 10.554(1)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures and internal controls. Our audit disclosed the matters discussed in Current Year's Observations and Recommendations, Appendix A.

The Rules of the Auditor General (Sections 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on compliance and internal controls and are not clearly inconsequential: (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 (for example, the omission of required disclosures from the financial statements); (4) failure to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations and instances of fraud discovered by, or that come to the attention of the auditor. No such conditions were noted during the audit. Also, see Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.

The Rules of the Auditor General (Section 10.554(1)(h)5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1.A. of the Supervisor of Election's financial statements.

This management letter is intended solely for the information of the Supervisor of Elections, management of Palm Beach County, Florida 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 the specified parties.

*McGladrey & Pullen, LLP*

West Palm Beach, Florida  
March 26, 2007

Supervisor of Elections of Palm Beach County, Florida

Appendix A  
Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls  
Year Ended September 30, 2006

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No.	Current Year's Observations
2006-01	Depositing on Cash Receipts
2006-02	Storage of Cash
2006-03	"Voiding" of Receipts
2006-04	Goods Received Note (GRN)
2006-05	New Financial System



**Supervisor of Elections of Palm Beach County, Florida**

**Appendix A  
Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls  
Year Ended September 30, 2006**

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**ML 06-1 – Depositing on Cash Receipts**

Criteria: Cash and checks received should be deposited in a timely manner.

Condition: We noted that cash and checks were not deposited on a timely basis resulting in cash being on hand for up to three weeks.

Recommendation: The Supervisor of Election should deposit cash on a daily basis. Depositing on a timely basis would result in less cash being stored on site and reducing the risk for errors or theft.

Management's Response: The SOE is currently writing policies that will dictate that all deposits are placed within the safe and properly documented. The SOE rarely has cash on hand and normally less than \$50.00, but the SOE will deposit them on a more regular basis reducing the timeframe for any potential loss of revenue.

**ML 06-2 – Storage of Cash**

Criteria: Cash and checks received should be stored in a secure environment prior to depositing same to the bank.

Condition: We noted that the cash and checks are stored in the Deputy Chief's drawer in her office. Since these items are not being deposited on a daily basis, the cash and checks should be stored in a more secure area/unit.

Recommendation: M&P recommends that the Supervisor of Elections obtains a secure safe to store cash and checks in addition to depositing funds on a more frequent basis.

Management's Response: The SOE has purchased a safe and will deposit cash and checks into its bank account on a more frequent basis.

**ML 06-3 – "Voiding" of Receipts**

Criteria: For fee revenue – entries and receipts that have been voided all three receipts should still be intact in the receipt book [three copies – customer (white); reconciliation (yellow) and receipt book (pink)] with voided written over the copies.

Condition: We noted from our sample that two receipts that were voided, did not have the customers receipt in the receipt book.

Cause: Management is not following up on receipts that are voided coupled with no formal procedures in place for voided receipts.

Effect: Cash could be misappropriated by employees accepting the cash, giving the receipt to the customer but writing "voided" on the other copies (yellow & pink) of the receipts and keeping the funds.

Recommendation: We recommend that written procedures be established with regard to voiding receipts. In addition, any receipt that is voided should be approved and initialed by management.

Management's Response: The SOE agrees with the auditor's recommendation and will implement them this quarter, along with staff retraining.

## Supervisor of Elections of Palm Beach County, Florida

### Appendix A

#### Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls Year Ended September 30, 2006

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##### ML 06-4 – Goods Received Note (GRN)

Criteria: A Goods Received Note (GRN) (Receipt Document) should be completed by the staff member who is properly authorized to receive the goods. This approval form should be matched to the original Purchase Order and Invoice to ensure the correct quantity of goods have been received.

Condition: We noted that no formalized process is in place for receiving goods resulting in an ad-hoc approval process. In addition, from our sample, formal acknowledgement and receipt of good is not documented on invoices/receipt.

Cause: There is no formal policy in place to ensure all goods are physically verified and approved.

Effect: Without formal approval process and documentation of same, the risk increases that goods and assets could be misappropriated.

Recommendation: We recommend that Supervisor of Election develop written procedures for receipt of goods/services. These procedures should incorporate the development of a GRN form, and a process for approval and authorization.

Management's Response: During the conduct of the audit, the SOE did maintain informal policies and procedures to ensure that all goods are physically verified and approved by maintaining all packing slips and matching amounts thereon with actual goods received. The SOE has developed and adopted, effective July 2007, an Accounting and Administrative Procedures and Controls Manual which formally incorporates this policy including authorization procedures.

##### ML 06-5 – New Financial System

Criteria: Implementation of any accounting system should include a proper structure of internal control that allows for reasonable assurance that transactions are executed and recorded with management's assertions.

Condition: The Supervisor of Elections (SOE), effective for fiscal year 2007, will assume full responsibility for all its accounting functions. We are also aware of the SOE's recent acquisition of a new accounting software system, which will be responsible for dataware housing the annual operating budget, accounts payable, accounts receivable and payroll functions. The new accounting system will also serve as the primary basis for the preparation of its financial statements.

Recommendation: As part of the SOE's assumption of the accounting function, we recommend that they implement policy's and procedures that will help to ensure prudent internal control practices. Such policies and procedures should include, but not be limited to the following areas:

- Make sure the budget is properly entered and monitored and there is proper authorization for modifications or changes.
- Purchase orders (PO's) should be sequentially numbered and should accompany the authorized approval prior to requisition of goods and services.
- Prior to any payment, all outstanding accounts payable should be supported by authorized purchased orders, receiving documentation, and third party invoice.

**Supervisor of Elections of Palm Beach County, Florida**

**Appendix A  
Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls  
Year Ended September 30, 2006**

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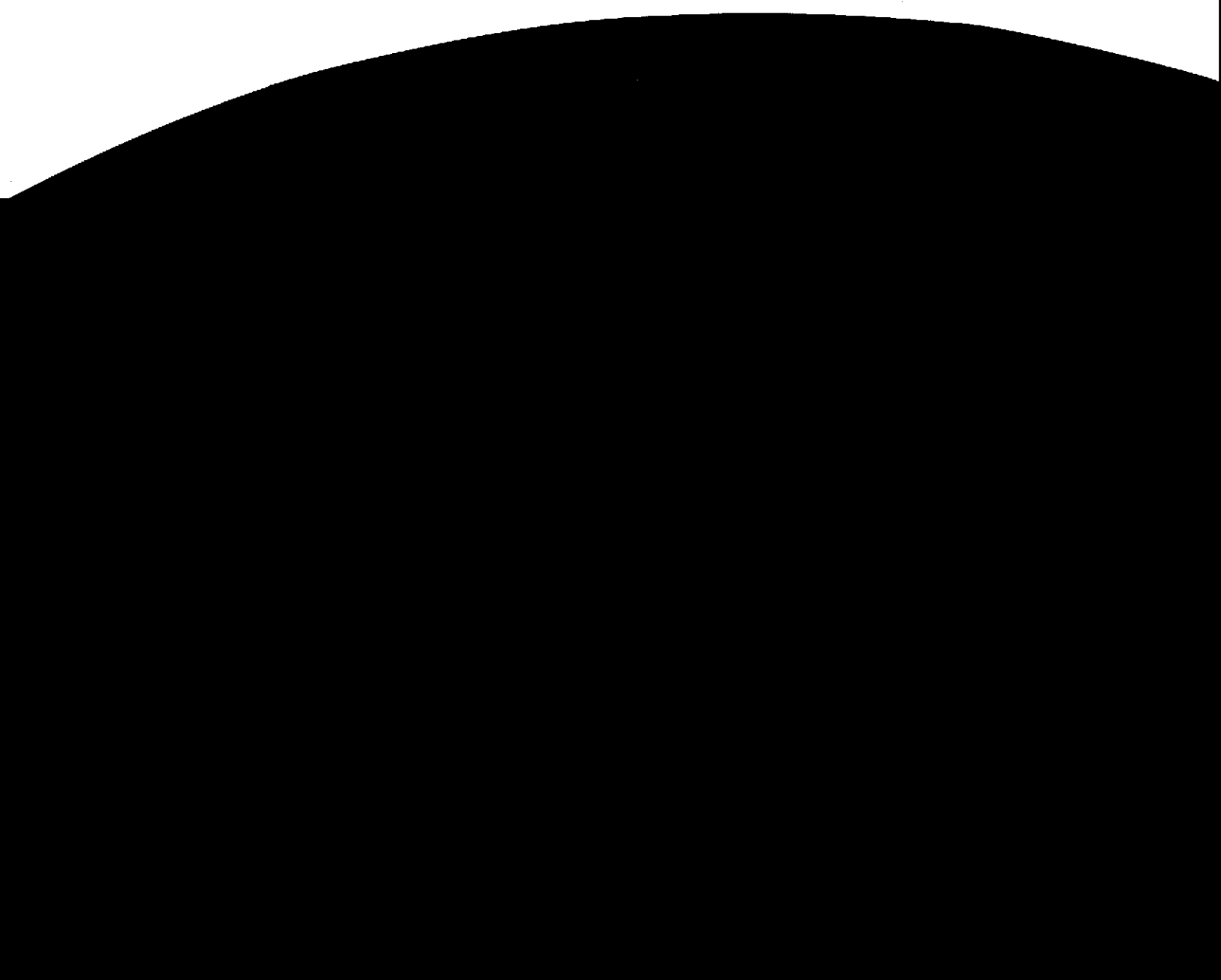
Management's Response: The SOE concurs with the observation and recommendation but does not believe the auditor's comments warrant a formal "Observation / Recommendation" and believe the comment would have been more appropriate if discussed in the exit conference. The SOE was already aware of the procedures to be considered in the implementation of its accounting system, and incorporated these findings prior to the auditor reflecting them in a formal "Observation / Recommendation", and had the auditor discussed this with the SOE, this comment would not have been necessary.

**McGladrey & Pullen**

Certified Public Accountants

**Palm Beach County, Florida  
Tax Collector**

Management Letter  
09.30.2006



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# McGladrey & Pullen

Certified Public Accountants

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

The Honorable Anne M. Gannon  
Tax Collector  
Palm Beach County, Florida

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Tax Collector, Palm Beach County, Florida (the "Tax Collector"), as of and for the year ended September 30, 2006, and have issued our report thereon dated March 26, 2007, which was prepared to comply with State of Florida reporting requirements.

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 Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, if any, which is dated March 26, 2007, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(h)1.) require that we address in the management letter, if not already addressed in the auditors' reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been corrected. There were no recommendations made in the preceding annual report.

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.), 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 Tax Collector complied with Section 218.415, *Florida Statutes*.

The Rules of the Auditor General (Section 10.554(1)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures and internal controls. Our audit disclosed the matters discussed in Appendix A to this report.

The Rules of the Auditor General (Sections 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on compliance and internal controls and are not clearly inconsequential: (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 (for example, the omission of required disclosures from the financial statements); (4) failure to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations and instances of fraud discovered by, or that come to the attention of the auditor. No such conditions were noted during the audit. Also, see Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.

The Rules of the Auditor General (Section 10.554(1)(h)5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1.A. of the Tax Collector's financial statements.

This management letter is intended solely for the information of the Tax Collector, management of Palm Beach County, Florida 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 the specified parties.

*McGladrey & Pullen, LLP*

West Palm Beach, Florida  
March 26, 2007

**Tax Collector of Palm Beach County, Florida**

**Appendix A  
Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls  
Year Ended September 30, 2006**

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<b>No.</b>	<b>Current Year's Observations</b>
2006-01	Application Security
2006-02	Data Security
2006-03	IT Access
2006-04	Formal Security Programs
2006-05	System Upgrades/Modifications
2006-06	Security Access
2006-07	Security Training



## Tax Collector of Palm Beach County, Florida

### Appendix A Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls Year Ended September 30, 2006

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#### Current Year Suggestions

##### ML 06-01      Application Security

Criteria: Effective application security relies on a security structure that includes the use of the available security features in the software.

Condition: There were aspects of security management that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Tax Collector information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues.

- Certain important security features available in the application software had not been utilized.

Cause: Certain important security features available in the application software had not been utilized due to assuming that required security functionality was present during initial installation.

Impact: Unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: The Tax Collector should utilize appropriate application security control features to enhance security over its data and programs.

Management Response: The software security architecture is designed to prevent unauthorized access. Specified application security control features will be implemented in test environments and migrated to the production environment, if no adverse results are found during testing.

##### ML 06-02      Data Security

Criteria: Effective database security relies on a security structure that includes the use of the following:

- Security features available in the software
- Security administration procedures developed and documented for the granting and revoking of data and resource access.

Condition: There were aspects of security management that needed improvement. Specific details of these issues are not disclosed in this report to avoid the possibility of compromising Tax Collector information in accordance with Florida Statute 281.301. However, appropriate personnel have been notified of these issues.

- Certain important security features available in the database software had not been utilized.
- The Tax Collector had not established formal policies and procedures for certain security controls: the granting, revoking, and maintenance of user access; employee termination procedures; and the periodic review of user access.
- Instances of active database user accounts they may not be required to perform existing operations.

Cause:

- Certain important security features available in the database software had not been utilized due to assuming that required security functionality was present during initial installation.
- Insufficient coordination and communication.

## Tax Collector of Palm Beach County, Florida

### Appendix A

#### Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls Year Ended September 30, 2006

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##### Impacts:

- The absence of written policies and procedures for these functions increase the risk that the functions will not be carried out as management intended.
- Unauthorized access to applications through obsolete user accounts.

##### Recommendations: The Tax Collector should implement the following corrective actions:

- Develop a plan to ensure that policies and procedures are in place for security-related functions within the organization and also with interdependent entities. The policies and procedures should be reviewed periodically and updated as needed for organizational and system-related changes to help ensure that management requirements are met by Tax Collector staff when performing assigned tasks.
- Appropriate database security control features to enhance security over its data and programs.

Management Response: The software security architecture is designed to prevent unauthorized access. In addition, database security is limited to authorized administrators for support. The database security control features, specified in this audit, will be implemented in test environments and migrated to the production environment, if no adverse results are found during testing.

Vendor security procedures documentation will be integrated into an overall security procedures document.

#### **ML 06-03      IT Access**

Criteria: Proper security of computer systems includes measures to limit physical access to the data center to those individuals requiring access to perform their job functions and periodic reviews of those accesses to ensure they remain appropriate.

Condition: The Tax Collector had not established formal policies and procedures for approving and periodically reviewing physical access to the County's centrally managed joint location.

Cause: Insufficient coordination and communication.

Impact: The absence of written policies and procedures for these functions increases the risk that the functions will not be carried out as management intended.

Recommendation: The Tax Collector should implement a plan to ensure that policies and procedures are in place for security-related functions within the organization.

Management Response: Management limits physical access to the data center to individuals requiring access to perform their job functions. Only the Tax Collector I.T. staff has access to the ISS data center located on the 4<sup>th</sup> floor. Management authorizes access to the 3<sup>rd</sup> floor computer room for staff that needs physical access to the room to perform their job function. Furthermore, the equipment in the 3<sup>rd</sup> floor server room is secured in locked racks. Only authorized staff has access to specific racks.

A plan will be implemented to ensure that policies and procedures are in place for security-related functions within the organization.

## Tax Collector of Palm Beach County, Florida

### Appendix A Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls Year Ended September 30, 2006

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#### ML 06-04      Formal Security Programs

Criteria: Effective security relies on a security structure that includes consideration of data classification and ownership, organizational and operational policies, a thorough review of security, user awareness, and security administration procedures. Specific procedures developed for each of the major functions of security administration include designing the security hierarchy; granting and revoking data and resource access; and reporting and monitoring activity.

Condition: The Tax Collector had not established a formal security program.

Cause: The relatively small size of the department and limited resources available.

Impact: Absent of a formal security program, the risk is increased that sound information security controls will not be sufficiently assessed and imposed to prevent compromise of data confidentiality, integrity, and availability.

Recommendation: The Tax Collector should develop a formal security program including an assessment of defined risk, mitigating controls, and acceptance levels.

Management Response: System access privileges are controlled using the application security modules. Users are granted system access only to modules required to perform their job function. The Finance and Budget Director audits the security levels to ensure that adequate security controls are in place. Only the I.T. department can modify the security levels.

User accounts and password standards are in place to ensure system integrity. The IT department uses internal processes for user provisioning.

A formal security program that includes an assessment of defined risk, mitigating controls, and acceptance levels, will be developed.

#### ML 06-05      System Upgrades/Modifications

Criteria: A formalized and documented Systems Development Life Cycle ("SDLC") methodology can provide consistent guidance to all staff at all levels of skill and experience. An SDLC methodology typically details the procedures that are to be followed when applications are being acquired, designed, developed, and implemented, as well as when they are subsequently modified. Project management is an inherent part of the SDLC process and defines the scope and boundaries for managing a project, as well as the methodology used in managing the project. The methodology, at a minimum, covers the responsibilities, task breakdown, budgeting of time and resources, milestones, check points, and approvals. Additionally, once the system is implemented, written procedures serve to document the duties of business personnel using the new systems.

Condition: The Tax Collector did not have adequate written policies and procedures in place for tracking, evaluating, and applying patches and upgrades to systems software. Specific details of these deficiencies are not disclosed in this report to avoid the possibility of compromising Tax Collector information in accordance with Florida Statute 281.301. However, appropriate Tax Collector personnel have been notified of these deficiencies.

Cause: The relatively small size of the department and limited resources available.

**Tax Collector of Palm Beach County, Florida**

**Appendix A  
Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls  
Year Ended September 30, 2006**

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Impact: Without an established methodology governing the maintenance of systems, management risks implementation of system modifications that may not satisfy the users' needs, meet the organization's business needs, or preserve appropriate controls. Also, in the absence of policies and procedures outlining controls and measures necessary for the quality and consistency with which the Tax Collector's objectives are achieved, the risk is increased that management will not have a basis for determining whether directives are properly performed nor will personnel have guidelines for meeting management's expectations.

Recommendation: The Tax Collector should develop a closed-loop change management policy.

Management Response: Vendor-supplied applications, under support contract, already have formalized documentation and procedures to apply patches and install upgrades. This documentation will be integrated into the SDLC.

**ML 06-06      Security Access**

Criteria: Effective security relies on a security structure that includes the use of policies and procedures for the granting and revoking of data and resource access.

Condition: We identified deficiencies in the Tax Collector's security-related controls. Specific details of these deficiencies are not disclosed in this report to avoid the possibility of compromising District information in accordance with Florida Statute 281.301. However, appropriate Tax Collector personnel have been notified of the deficiencies.

Cause: The relatively small size of the department and limited resources available.

Impact: Risks include unauthorized use, disclosure of proprietary information, modification, damage, or loss of data.

Recommendation: The Tax Collector should implement a plan to ensure that policies and procedures are in place for security-related functions within the organization.

Management Response: Third party vendors do not have access to the Palm Beach County network nor access to the servers for support. A plan to ensure that policies and procedures are in place for security-related functions within the organization will be implemented.

**ML 06-07      Security Training**

Criteria: Effective security relies on a security structure that includes consideration of security awareness training for all employees.

Condition: The Tax Collector had not implemented an ongoing comprehensive security awareness and training program for new and continuing employees covering the Tax Collector's IT resources.

Cause: The relatively small size of the department and limited resources available.

Impact: The lack of a comprehensive security awareness and training program increases the risk to, and the vulnerability of, the Tax Collector's IT resources, and limits the assurance that the level of security over IT resources is adequate.

## Tax Collector of Palm Beach County, Florida

### Appendix A

#### Recommendations to Improve Financial Management, Accounting Procedures and Internal Controls Year Ended September 30, 2006

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Recommendation: The Tax Collector should develop and implement a program to provide ongoing comprehensive security awareness and training for new and continuing employees.

Management Response: The IT department provides end-user training for new employees. In addition, policies are in place to remind users of their responsibilities related to IT security and acceptable use of office equipment. Moreover, the IT department monitors systems to identify security threats. A program to provide ongoing comprehensive security awareness and training for new and continuing employees will be developed and implemented.