

# McGladrey & Pullen

Certified Public Accountants

## Palm Beach County, Florida

Management Letter  
09.30.2007

# 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, 2007, and have issued our report thereon dated March 19, 2008. We did not audit the financial statements of the Solid Waste Authority, a major enterprise fund, which represents 27% of the total assets and 53% of total revenues of the business-type activities. We did not audit the financial statements of the Westgate Belvedere Homes Community Redevelopment Agency, a discretely presented component unit, which represents 43% of the total assets and 45% of total revenues of the aggregate discretely presented component units. We also did not audit the financial statements of the Housing Finance Authority, a discretely presented component unit, which represents 55% of the total assets and 28% 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, Westgate Belvedere Homes Community Redevelopment Agency, 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 conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Governmental 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*. We have issued our Independent Auditor's Report on Compliance and Internal Control over Financial Reporting, Independent Auditor's Report on Compliance and Internal Control over Compliance Applicable to each Major Federal Program and State Project, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 19, 2008, 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, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

The Rules of the Auditor General (section 10.554(1)(i)1.) requires 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 costs, 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.

The Rules of the Auditor General (Section 10.554(1)(i)2.), requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined the County complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(i)3.) requires that we address in the management letter any findings and recommendations to improve the County's financial management, accounting procedures, and internal controls. The recommendations to improve the County's financial management, accounting procedures, and internal controls have been addressed in Appendix A to this report.

The Rules of the Auditor General (Section 10.554(1)(i)4.) requires 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 whether there are violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. These matters are disclosed in Appendix A of this report.

The Rules of the Auditor General (Section 10.554(1)(i)5.) requires disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal control or schedule of findings and questioned costs and are not clearly inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations and contractual provisions or abuse that have occurred or are likely to have occurred; (2) improper expenditures or illegal acts; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual 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.

The Rules of the Auditor General (Section 10.554(1)(i)6.) also requires 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 to the financial statements.

As required by the Rules of the Auditor General (Section 10.554(1)(i)7.a), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in the Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the County did not meet any of the conditions described by Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(i)7.b), we determined that the annual financial report for the County for the fiscal year ended September 30, 2007, 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, 2007.

As required by the Rules of the Auditor General (Section 10.554(1)(i)7.c) and 10.556(7.), we applied financial assessment procedures. It is management's responsibility to monitor the entity'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 19, 2008

**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> |
|------------|------------------------------------|
|------------|------------------------------------|

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**Department of Airports**

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ML 07-1 Investment in Corporate Securities

**Risk Management**

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ML 07-2 Risk Management: Documentation of Review of Claims Reserves

ML 07-3 Risk Management: Data Provided to the County's Actuary

ML 07-4 Risk Management: Reimbursement Checks for Workers' Compensation

**Water Utilities Department**

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ML 07-5 Construction in Progress

ML 07-6 Approval of Journal Entries

**Palm Beach County, Florida**

**Appendix A – Current Year Recommendations to Improve  
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**CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

**Department of Airports**

**ML 07-1 Investment in Corporate Securities**

Criteria: The County's investment policy, as established by the Clerk, does not allow for the County to be invested in equity securities.

Condition: As of September 30, 2007, the Department of Airports was holding approximately \$320,000 of equity securities from three airlines.

Cause: The securities were received by the County to satisfy the airline debt for facility rentals and landing fees. The administrative procedures required by the third party trustee holding the securities resulted in the County holding the stocks for a period of time prior to the sale of the stocks.

Effect: The Department of Airports is in violation of the County's investment policy.

Recommendation: It was noted that all equity securities have been sold as of the date of this Management Letter, with the most recent sale being handled by the Palm Beach County Treasurer's Office. We recommend all future sales of such securities be handled by the Palm Beach County Treasurer's Office, who then needs to liquidate the securities as soon as administratively possible. We also recommend the Clerk revise its investment policy to allow for certain instances where the County is paid in equity securities to satisfy that entity's debt to the County.

Management Response: The Department concurs with the recommendation and supports the Investment Policy change and to direct the County Treasurer to handle these transactions.

Palm Beach County, Florida

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Risk Management

**ML 07-2 – Risk Management: Documentation of Review of Claims Reserves**

Criteria: GASB requires entities to implement adequate internal controls, to ensure proper recording of accounting information reported on government financial statements.

Condition: We noted inadequate review for reserves of a claim amounts. The amount is generated by the manager, and entered into the system without review and approval.

Cause: Ineffective design of internal controls over claim reserves.

Effect: Possibility of inaccurate amounts reported for reserves of a claim.

Recommendation: We recommend the County implement a thorough review process for these claims.

Management Response: This recommendation, which involves management review of reserving practices for the County's self-insured workers' compensation claims, has been met with last year's implementation of internal policy & procedure #RM-F-304, which requires the Manager, Workers' Compensation, to follow specific reserving practices for each claim reported. Upon review of this recommendation with the auditors, it was evident that this procedure has been followed when the auditors stated that no discrepancies had been found. However, the department will implement a "claim review" policy and procedure which will document the Department Director's regular review of the claim reserves to ensure they are being set properly and deviations to the policy are well documented.

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**ML 07-3 – Risk Management: Data Provided to the County's Actuary**

Criteria: GASB requires entities to implement adequate internal controls, to ensure proper recording of accounting information reported on government financial statements.

Condition: The workers' compensation data provided to the County's actuary was inaccurate. The report, with the data, provided to the actuary contained an additional number of days than the actual County's fiscal year. The report was run from 10/01/06 through 10/16/07, when the County's fiscal year end is 9/30/07, thus providing the actuary with an additional 16 days of data from fiscal year 2008.

Cause: Administrative oversight.

Effect: Inaccurate actuary amounts presented on financial statements.

Recommendation: We recommend the County implement policies and procedures to ensure the data reported to actuary are accurate.

Management Response: Existing procedure in this Department is for the Fiscal Manager to report data to the actuary at the end of each fiscal year period. A report is requested of the ISS Department limiting the data to the period 10/1 to 9/30. However, it is apparent that staff failed to notice that the data provided to the Actuary for the most recent Fiscal Year completed contained data through 10/16/07 (the date the report was completed by ISS). Although the payment amounts for that timeframe are considered immaterial in the large scope of the self-insured liability associated with workers' compensation and property/casualty, I agree with the recommendation that a policy and procedure should be implemented to ensure the data reported to the actuary are strictly contained within the reporting period. The policy will be implemented immediately.

Palm Beach County, Florida

Appendix A – Current Year Recommendations to Improve  
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**ML 07-4 – Risk Management: Reimbursement Checks for Workers' Compensation**

Criteria: GASB requires entities to implement adequate internal controls, to ensure proper recording of accounting information reported on government financial statements.

Condition: When workers' compensation receives a reimbursement check, they send it over to finance in an envelope through the interoffice mail. However, Risk Management does not maintain a listing of the checks that are sent and reconcile them with the bank statement to ensure that all of the checks have been deposited.

Cause: Administrative oversight.

Effect: Cash received has the potential of not being recorded.

Recommendation: We recommend the County implement an internal control procedure, requiring Risk Management Department to maintain a listing of all checks sent to finance and reconcile these checks with the bank statement.

Management Response: Risk Management does maintain a listing of all checks sent to the Finance Department, and, for each check sent, makes an entry into the receipt book as required by internal PPM #RM-F-302. Risk Management does not have access to the County's bank statement. However, #RM-F-302 will be expanded to include a review of the appropriate line item in the Advantage System to ensure the subrogation has been credited to the account.

Palm Beach County, Florida

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Water Utilities Department (WUD)

**ML 07-5 – Construction in Progress**

Criteria: The Water Utilities Department's ("WUD") designed internal controls over the construction in progress account balance to provide reasonable assurance regarding the reliability of financial reporting. One of these controls is the review and approval of various components to a construction project.

Condition: The WUD has a number of control procedures in place related to construction projects but the review or approval process is not always documented.

Cause: Administrative oversight.

Effect: There is a lack of evidence to ensure that the internal control procedures are operating effectively.

Recommendation: We recommend that WUD modify its current procedures to provide evidence of the reviews that take place throughout the project's process.

Management Response: The WUD concurs with the comment and will implement a procedural change to correct this comment.

**Palm Beach County, Florida**

**Appendix A – Current Year Recommendations to Improve  
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**Water Utilities Department (WUD)**

**ML 07-6 – Approval of Journal Entries**

Criteria: Government Auditing Standards defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) effectiveness and efficiency of operations; (b) reliability of financial reporting; and (c) compliance with applicable laws and regulations.

Condition: The WUD senior accountant has the ability to both create and approve journal entries in the accounting system. There is no review of the journal entries after the senior accountant has entered them into the accounting system.

Cause: Inadequate design of internal controls over journal entries.

Effect: Although the senior accountant does not usually prepare journal entries, it is possible for the senior accountant to bypass the internal control system by preparing entries without review. This bypass of the internal control could result in the failure to detect errors in financial reporting.

Recommendation: We recommend the department director or another employee review and approve the senior accountant's journal entries.

Management Response: The WUD concurs with the comment and will implement a procedural change to correct this comment.

**Palm Beach County, Florida**

**Appendix B – Prior Year Recommendations to Improve  
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| <u>No.</u> | <u>Prior Year's Observations</u>  | <u>Observation<br/>is Still Relevant</u> | <u>Observation<br/>Addressed or<br/>No Longer<br/>Relevant</u> |
|------------|---|--|--|
| ML 04-1    | Transfer of Completed Projects out of Construction<br>Work in Progress              |  | X  |
| ML 05-1    | Transfer of Infrastructure out of Construction Work in<br>Progress and Depreciation |  | X  |
| ML 06-1    | ISS - Application Security  | X  |  |
| ML 06-2    | ISS - Data Security   | X  |  |
| ML 06-3    | ISS - Output Data Access  |  | X  |
| ML 06-4    | ISS - System Access   |  | X  |
| ML 06-5    | ISS - Physical Control Access   |  | X  |
| ML 06-6    | WUD - Application Security  |  | X  |
| ML 06-7    | WUD - Data Security   |  | X  |
| ML 06-8    | DOA - Appraisal of Fixed-Based Operator Building<br>Additions                       |  | X  |
| ML 06-9    | DOA - Passenger Facility Charges Revenue  |  | X  |
| ML 06-10   | OFMB - Transfers of Completed Projects from CWIP to<br>Infrastructure               |  | X  |
| ML 06-11   | OFMB - Recording Capital Assets in the Proper Period                                |  | X  |
| ML 06-12   | OFMB - Risk Mgt: Adjustment to Loss Report for<br>Workers' Compensation Claims      |  | X  |
| ML 06-13   | OFMB - Risk Mgt: Control over Completeness of<br>Workers' Compensation Claims       |  | X  |
| ML 06-14   | OFMB - Inventory: Valuation Support   |  | X  |
| ML 06-15   | OFMB - Cash Receipts: Securing Assets   |  | X  |
| ML 06-16   | OFMB - Allowed Activities: Highway Planning and<br>Construction Grant Program       |  | X  |
| ML 06-17   | OFMB - Allowed Activities: Highway Planning and<br>Construction Grant Program       |  | X  |
| ML 06-18   | OFMB - Cash Management: Community Development<br>Block Grant                        |  | X  |
| ML 06-19   | OFMB - Reporting: Community Development Block                                       |  | X  |
| ML 06-20   | Clerk - Payroll: Segregation of Duties  |  | X  |
| ML 06-21   | Clerk - Payroll: Time Card Audits   |  | X  |
| ML 06-22   | Clerk - Prepaid Insurance   |  | X  |
| ML 06-23   | Clerk - Equity: Use of Restricted Funds   |  | X  |
| ML 06-24   | Clerk - Conduit Debt  |  | X  |

**Palm Beach County, Florida**

**Appendix B – Prior Year Recommendations to Improve  
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**ML 06-1 ISS – Application Security**

Prior Year Observation: 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.

Prior Year 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.

Prior Year Management 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.

Current Year Status: Observation is still relevant and resolution is pending conversion and testing of security features.

Current Year Management Response:

Information Support Services (ISS) Response: 1<sup>st</sup> Prior Year Recommendation- This recommendation relates to activating password encryption for web access to the Advantage Financial application. Technological modifications have been implemented to activate encryption, but problems were experienced by the system users. It was determined that the problem is an application defect and the application vendor has accepted the problem as a repair. ISS will follow-up with the vendor (CGI) in an attempt to determine when they will complete the necessary corrections.

**Palm Beach County, Florida**

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Clerk Response: 2<sup>nd</sup> Prior Year Recommendation -A review of the existing process was conducted resulting in an increased frequency of the departmental reviews (increased from annual to semi-annual) and additional clarification of codes used in the review report.

**ML 06-2 ISS – Data Security**

Prior Year Observation: 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.

Prior Year 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.

Prior Year Management 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.

Current Year Status: Observation is still relevant and resolution is pending conversion and testing of security features.

**Palm Beach County, Florida**

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Current Year Management Response:

ISS Response:

**1<sup>st</sup> Prior Year Recommendation**

This recommendation and our response relates to seven modifications to the security configuration of the Advantage and TimeServer systems. Currently the security features, role changes, and database links have been corrected. Auditing for critical tables in the Advantage database has not been implemented due to the impact on application performance. The Clerk's Office is currently working with the application vendor for alternatives to directly auditing tables in the database. Additionally, enabling password parameters in the Advantage database is still outstanding. Investigations into the alternatives for activating these features are near completion. However, the alternatives that have been considered so far have proven to be technically incompatible or expensive given the limited access of the user accounts involved. A final report of the results is anticipated in the next three to four weeks and, when available, will be forwarded to OFMB and the external auditors. Password parameters have been activated in the TimeServer application.

**2<sup>nd</sup> Prior Year Recommendation**

A procedure for maintaining user credentials in the Advantage and TimeServer databases has been compiled but has yet to be fully implemented. It is anticipated the procedures will be ready for final implementation in the next six to eight weeks.

ISS will monitor these items through completion and will prepare periodic reports showing current status.

# McGladrey & Pullen

Certified Public Accountants

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

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, 2007, and have issued our report thereon dated March 19, 2008, 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 19, 2008, 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.

Rules of the Auditor General (Section 10.554(1)(i)1), requires that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial audit report have been addressed in Appendix B to this report.

As required by the Rules of the Auditor General (Section 10.554(1)(i)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 Clerk complied with Section 218.415, Florida Statutes.

Rules of the Auditor General (Section 10.554(1)(i)3), requires that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. The recommendations to improve financial management, accounting procedures, and internal controls are presented in Appendix A to this report.

Rules of the Auditor General (Section 10.554(1)(i)4.), requires disclosure in the management letter of the following matters, if not already addressed in the auditor's reports on compliance and internal controls, whether there were violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. There were no such matters noted during our audit.

Rules of the Auditor General (Section 10.554(1)(i)5.), requires disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal control and are not clearly inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred; (2) improper expenditures or illegal acts; (3) improper or inadequate accounting procedures (e.g., 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.

Rules of the Auditor General (Section 10.554(1)(i)6.), requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The information is disclosed in Note 1 to the financial statements.

Rules of the Auditor General (Section 10.554(1)(i)8a), requires a statement as to whether or not the Clerk & Comptroller complied with the budget certified by the Florida Clerk of Courts Operations Corporation pursuant to Section 28.35, Florida Statutes. In connection with our audit, we noted no instances of noncompliance.

Rules of the Auditor General (Section 10.554(1)(i)8b), requires a statement as to whether or not the Clerk & Comptroller 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 management letter is intended solely for the information of the Clerk, management of the Palm Beach County Florida Clerk and Comptroller's Office, 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 19, 2008

Clerk & Comptroller  
Palm Beach County, Florida

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| No.      | Current Year's Observations |
|----------|-----------------------------|
| ML 07-01 | Cash/Signature Card         |

Clerk & Comptroller  
Palm Beach County, Florida

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**ML 07-01      Cash/Signature Card**

Criteria: One of the control objectives over the cash disbursement transaction cycle is to ensure cash payments made are properly authorized. Part of the Clerk's control over this objective is a signature card on file with the bank.

Condition: We noted the name of a terminated employee listed on the signature card.

Cause: While the Clerk has procedures in place to remove access for terminated employees, it was not clear whether there was a breakdown in the process made by the Clerk's office or the financial institution. However, there was no internal control procedure in place by the Clerk's office to detect this error.

Effect: The former employee has access to the Clerks assets. The Clerk is also unable to satisfy its control objective that cash payments made are properly authorized.

Recommendation: While there are procedures in place to remove access for terminated employees, the Clerk should establish a control procedure to periodically review access controls to its internal systems and its bank accounts to ensure that terminated employees access has been properly removed.

Management's Response: Management concurs with the auditor's recommendation. The Clerk's Office will establish a policy that will include maintaining a list of employees authorized as signatories on Clerk bank accounts, review of the list on at least a quarterly basis, notification to the bank to remove terminated employees as authorized signatories and confirmation with the bank that requested changes have been processed. This list will be provided to the Clerk's Administration Department so that notification may be provided to the Accounting Department when an authorized signatory has terminated employment.

Clerk & Comptroller  
Palm Beach County, Florida

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| No.   | Prior Year's Observations      | Observation<br>is Still<br>Relevant | Observation<br>Addressed<br>or<br>No Longer<br>Relevant |
|-------|--------------------------------|-------------------------------------|---|
| 06-01 | Application Security           | X                                   |   |
| 06-02 | Data Security                  | X                                   |   |
| 06-03 | User Access                    | X                                   |   |
| 06-04 | Security Controls              | X                                   |   |
| 06-05 | Imprest Accounts               |                                     | X   |
| 06-06 | Cash on Hand (Change Funds)    |                                     | X   |
| 06-07 | Bank Reconciliations           |                                     | X   |
| 04-01 | Circuit Court Registry Reports |                                     | X   |
| 04-05 | Cash Disbursements             |                                     | X   |

**Appendix B – Prior Year Recommendations to Improve  
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**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.

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

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

Current Year Status and Management Response: The Clerk's Office is currently implementing a new ERP system. This system will go live October 1<sup>st</sup>, 2008 and replace the existing Clerk Payroll and Finance systems. This implementation will result in a new security model and security management procedures consistent with prior year audit comments.

**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.

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- 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.

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.

Prior Year 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.

Prior Year 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.

Current Year Status and Management Response: The Clerk's Office is currently implementing a new ERP system. This system will go live October 1<sup>st</sup>, 2008 and replace the existing Clerk Payroll and Finance systems. This implementation will result in a new security model and security management procedures consistent with prior year audit comments.

**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.

Clerk & Comptroller  
Palm Beach County, Florida

Appendix B – Prior Year Recommendations to Improve  
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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.

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

Prior Year 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.

Current Year Status and Management Response: The Clerk's Office is currently implementing a new ERP system. This system will go live October 1<sup>st</sup>, 2008 and replace the existing Clerk Payroll and Finance systems. This implementation will result in a new security model and security management procedures consistent with prior year audit comments.

#### 06-4 Security Controls

Criteria: Effective security of computer systems rely 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 ongoing.

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.

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

Clerk & Comptroller  
Palm Beach County, Florida

**Appendix B – Prior Year Recommendations to Improve  
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Prior Year 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.

Current Year Status and Management Response: The Clerk's Office is currently implementing a new ERP system. This system will go live October 1<sup>st</sup>, 2008 and replace the existing Clerk Payroll and Finance systems. This implementation will result in a new security model and security management procedures consistent with prior year audit comments.

# 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, 2007, and have issued our report thereon dated March 19, 2008, 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 19, 2008, 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)(i)1.) requires that we address in the management letter, if not already addressed in the auditors' reports on compliance and internal controls, whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial audit report have been addressed in Appendix B to this report.

As required by the Rules of the Auditor General (Section 10.554(1)(i)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)(i)3.) requires that we address in the management letter any findings and recommendations to improve the Property Appraiser's financial management, accounting procedures and internal controls. The recommendations to improve financial management, accounting procedures and internal controls are presented in Appendix A to this report.

The Rules of the Auditor General (Section 10.554(1)(i)4.) requires disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls whether there are any violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. There are no such matters noted during our audit.

The Rules of the Auditor General (Sections 10.554(1)(i)5.) requires 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 to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred; (2) improper expenditures or illegal acts; (3) improper or inadequate accounting procedures (for example, the omission of required disclosures from the annual 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.

The Rules of the Auditor General (Section 10.554(1)(i)6.) also requires 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 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 Property Appraiser's Office 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 19, 2008

Property Appraiser  
Palm Beach County, Florida

**Appendix A – Current Year Recommendations to Improve  
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and Internal Controls**

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| No.      | Current Year's Observations |
|----------|-----------------------------|
| ML 07-01 | Review of Journal Entries   |

**Property Appraiser  
Palm Beach County, Florida**

**Appendix A – Current Year Recommendations to Improve  
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**Current Year Suggestions**

**ML 07-01      Review of Journal Entries**

Criteria: As part of the accounting and reporting system, it is necessary to have adequate supervision and review controls in place to ensure that all entries that are prepared are reviewed and approved by someone other than the preparer.

Condition: The comptroller prepares various journal entries and submits the entries to be posted to an accounting clerk; these entries are not subjected to a review process. Although it is not typically done, there is also no system to prevent the comptroller from keying the entry into the system themselves.

Cause: A secondary review has not been identified for these particular entries.

Effect: Errors can go undetected in the financial statements.

Recommendation: While we realize that the financial staff of the Property Appraiser's office is relatively small, there should be segregation of duties and checks and balances in place wherever possible. Therefore, we recommend that whenever possible the comptroller refrain from initiating transactions to the system and in instances where that can not be avoided, provide all significant changes or adjustments to the accounting system to the Property Appraiser for their approval.

Management's Response: All journal entries prepared by the Comptroller will be forwarded to the Property Appraiser for his review and approval.

Property Appraiser  
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<br>is Still<br>Relevant | Observation<br>Addressed<br>or<br>No Longer<br>Relevant |
|----------|-------------------------------|-------------------------------------|---|
| ML 06-01 | Application Security          |                                     | X   |
| ML 06-02 | Database Security             |                                     | X   |
| ML 06-03 | Security Controls             |                                     | X   |
| ML 06-04 | System Upgrades/Modifications |                                     | X   |
| ML 06-05 | Business Continuity Controls  |                                     | X   |
| ML 06-06 | Security Access               |                                     | X   |
| ML 06-07 | Security Training             |                                     | X   |

# McGladrey & Pullen

Certified Public Accountants

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

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 of Palm Beach County, Florida ("the Sheriff") as of and for the year ended September 30, 2007, and have issued our report thereon dated March 19, 2008, 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; 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 19, 2008, 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.

Rules of the Auditor General (Section 10.554(1)(i)1.), requires that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls, whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial audit report have been addressed in Appendix A to this report.

As required by the Rules of the Auditor General (Section 10.554(1)(i)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 Sheriff complied with Section 218.415, Florida Statutes.

Rules of the Auditor General (Section 10.554(1)(i)3.), requires that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. There are no findings and recommendations to improve financial management, accounting procedures, and internal controls for the current annual financial audit report.

Rules of the Auditor General (Section 10.554(1)(i)44), requires disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls whether there were any violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. There are no such matters noted during our audit.

Rules of the Auditor General (Section 10.554(1)(i)54), requires disclosure in the management letter if not already addressed in the auditor's reports on compliance and internal controls and are not clearly inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations and contractual provisions or abuse that have occurred; (2) improper expenditures or illegal acts; (3) improper or inadequate accounting procedures (e.g., 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.

Rules of the Auditor General (Section 10.554(1)(i)64), requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The information is disclosed in Note 1 to the financial statements.

This management letter is intended solely for the information of the Sheriff, management of the Palm Beach County Sheriff's Office, 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 19, 2008

**Sheriff  
Palm Beach County, Florida**

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

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| No.      | Prior Year's Observations | Observation<br>is Still<br>Relevant | Observation<br>Addressed<br>or<br>No Longer<br>Relevant |
|----------|---------------------------|-------------------------------------|---|
| ML 06-01 | Application Security      | X                                   |   |
| ML 06-02 | Data Security             | X                                   |   |
| ML 06-03 | Security Controls         | X                                   |   |
| ML 06-04 | IT User Access            | X                                   |   |
| ML 06-05 | Data Center Access        | X                                   |   |
| ML 06-06 | IT Security Awareness     | X                                   |   |

**Sheriff  
Palm Beach County, Florida**

**Appendix A – Prior Year Recommendations to Improve  
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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.

Prior Year 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.

**Sheriff  
Palm Beach County, Florida**

**Appendix A – Prior Year Recommendations to Improve  
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Prior Year Management Response: We agree with the recommendation and we will review processes to ensure application of the referenced security control features.

Current Year Status and 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.

**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.

Prior Year 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.

Sheriff  
Palm Beach County, Florida

**Appendix A – Prior Year Recommendations to Improve  
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Prior Year Management Response: We agree with the recommendations and will craft a plan to implement measures to address issues identified and improve aspects of Information Systems security management.

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

**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.

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

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

Prior Year Management Response: We agree with recommendations and will assess the referenced security controls to help protect information systems data and resources.

Current Year Status and 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.

Condition: 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: The Sheriff's office relied on a departmental process for access control.

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.

Sheriff  
Palm Beach County, Florida

**Appendix A – Prior Year Recommendations to Improve  
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Prior Year 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.

Prior Year Management Response: We agree with recommendations. 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.

Current Year Status and Management Response: We agree with 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.

**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.

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

Prior Year 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.

Prior Year Management Response: We agree with recommendations and we will formally document the sign-in policy that grants physical access to secured areas within 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.

Current Year Status and Management Response: We agree with recommendation. We will formally document the sign-in policy that grants physical access to secured areas within 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.

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Palm Beach County, Florida

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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.

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

Prior Year Management Response: We agree with the recommendation, and will develop an ongoing agency-wide information security awareness program of training and education to employees.

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

# 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 the major fund of the Supervisor of Elections, of Palm Beach County, Florida (the "Supervisor"), as of and for the year ended September 30, 2007, and have issued our report thereon dated March 19, 2008, 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 19, 2008, 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)(i)1.) require that we address in the management letter, if not already addressed in the auditors' reports on compliance and internal control, whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial audit report have been addressed in Appendix B to this report.

As required by the Rules of the Auditor General (Section 10.554(1)(i)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 Supervisor complied with Section 218.415, *Florida Statutes*.

The Rules of the Auditor General (Section 10.554(1)(i)3.) requires that we address in the management letter any findings and recommendations to improve the Supervisor's financial management, accounting procedures and internal controls. The recommendations to improve financial management, accounting procedures and internal controls are presented in Appendix A to this report.

The Rules of the Auditor General (Section 10.554(1)(i)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 whether there are any violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. There are no such matters noted during our audit.

The Rules of the Auditor General (Sections 10.554(1)(i)5.) 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 to the financial statements considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or are likely to have occurred; (2) improper expenditures or illegal acts; (3) improper or inadequate accounting procedures (for example, the omission of required disclosures from the annual 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.

The Rules of the Auditor General (Section 10.554(1)(i)6.) 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 of the Supervisor's financial statements.

This management letter is intended solely for the information of the Supervisor of Elections, management of the Palm Beach County, Florida Supervisor's Office 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 19, 2008

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

**Appendix A – Current Year Recommendations to Improve  
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| <b>No.</b> | <b>Current Year's Observations</b> |
|------------|------------------------------------|
| ML 07-01   | Automated Business Processes       |
| ML 07-02   | Governance                         |
| ML 07-03   | Password Security                  |
| ML 07-04   | Operations                         |

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

**Appendix A – Current Year Recommendations to Improve  
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**ML 07-01          Automated Business Processes**

Criteria: A key control objective over the cash disbursement transaction cycle is that all purchases are appropriately authorized. Controls should be designed so that purchase requests are approved before the purchase is made and the funds are committed. To ensure all purchases are properly authorized, purchase orders should be generated and approved prior to the acquisition and commitment from the Supervisor being made.

Condition: We noted that purchase orders are not always being created before purchases are made leading to creation of these documents afterwards so invoices can be entered into and paid through the Fundware accounting and financial reporting system.

Cause: Lack of adequate administrative oversight to ensure that all purchase requests have been appropriately approved before the actual purchase is made.

Effect: Failure to properly follow the established control procedures could result in unauthorized purchases or purchases made in excess of available funds.

Recommendation: We recommend that management reinforce with staff the need to properly follow internal control procedures over the cash disbursement process. Additional software features that can be used with the fundware system include:

- Purchase order review and approvals
- Matching rules
- System auditing logging of AP processes

Management Response: Concur with recommendation and we will follow accounting and administrative controls and procedures as set forth in our procedures manual.

**ML 07-02          Governance**

Criteria: Official written policies and procedures should be documented for all of the Supervisor's accounting information systems.

Condition: We noted that written policies and procedures are not in place to address existing processes for security access and IT operations of the financial system.

Cause: Lack of adequate administrative oversight.

Effect: The Supervisor's office does not have a large staff and it is therefore essential that all policies and procedures be well documented to protect against the effects of employee turnover. Failure to properly document existing policies and procedures could impact future operations if there is employee turnover.

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

**Appendix A – Current Year Recommendations to Improve  
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Recommendation: The organization should establish and document Information Technology policies and procedures or at minimum, desktop instructions regarding the following areas:

- IT planning and resource management
- IT change management
- Server and application patch management
- Server and application upgrades
- IT Operations
- Backup recovery
- Disaster recovery and business continuity
- IT Security
- User account maintenance (new hire, transfer, suspension, termination) and review
- Server and internal network event log monitoring and response
- User security awareness training

Management Response: The established guidelines for the financial system will be written and finalized in the near term.

**ML -7-03          Password Security**

Criteria: To satisfy a control objective over accounting information system access and security, employees should be prompted to change their passwords on a regular basis.

Condition: We noted that currently there are no formal password security parameter standards for the Palm Beach County Supervisor of Elections (PBSOE) enforcing users to change passwords or adhere to complexity requirements for the financial system.

Cause: The Supervisor has not designed adequate controls over this control objective.

Effect: System passwords can become known by other employees over a period of time and allow unauthorized access.

Recommendation: Passwords management should be established to include:

- A minimum password length of 6 – 8 characters
- Password should be complex with the inclusion of numeric characters and a combination of upper case and lower case characters.
- Where systems lack the ability to enforce password aging, manual procedures should be established to force passwords change at least every 90 days.

Management Response: Fundware allows password to be up to 15 alphanumeric characters and is case sensitive. Fundware can not enforce complexity of password. Fundware will allow enabling of password changes, and this change will be implemented.

Supervisor of Elections  
Palm Beach County, Florida

Appendix A – Current Year Recommendations to Improve  
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ML 07-04      Operations

Criteria: Sound internal controls over the accounting information systems include documentation that outlines the recovery steps should the system become disabled.

Condition: We noted there is no designated recovery site in the event that the current data center is no longer operable. Also, we noted that backup tapes are taken offsite by the IT Manager to his home for storage.

Cause: No written recovery plan has been developed which addresses short-term continuation of processing as well as recovery in the event of a major disaster.

Effect: The lack of a written recovery plan may result in a delay in returning to normal operations in the event of a major disaster such as a hurricane.

Recommendation: It is recommended that the Palm Beach County Supervisor of Elections:

- Obtain an independent third-party solution such as a bank vault to store backup tapes containing financial data and/or a third-party, off-site storage provider.
- Enter into agreement with the Palm Beach County Information System Services Department to provide backup/recovery support in the event that the current data center is not operable including access to the backup/recovery support site used by the County.

Management Response: Storage at a banking facility provides limited or no access during off hours (including weekends). We are currently evaluating the most appropriate resource for our purpose and concern. Off-site secured facilities with 24 hour 7 day access are being evaluated.

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

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

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| <b>No.</b> | <b>Prior Year's Observations</b> | <b>Observation<br/>is Still<br/>Relevant</b> | <b>Observation<br/>Addressed<br/>or<br/>No Longer<br/>Relevant</b> |
|------------|----------------------------------|--|--|
| ML 06-1    | Depositing on cash receipts      |  | X  |
| ML 06-2    | Storage of cash                  |  | X  |
| ML 06-3    | "Voiding" of receipts            |  | X  |
| ML 06-4    | Goods Received Note (GRN)        |  | X  |
| ML 06-5    | New Financial System             |  | X  |

# 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 of Palm Beach County, Florida ("the Tax Collector"), as of and for the year ended September 30, 2007, and have issued our report thereon dated March 19, 2008, 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 19, 2008, 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.

Rules of the Auditor General (Section 10.554(1)(i)1.), requires that we address in the management letter, if not already addressed in the auditor's report on compliance and internal controls whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial audit report have been addressed in Appendix A to this report.

As required by the Rules of the Auditor General (Section 10.554(1)(i)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.

Rules of the Auditor General (Section 10.554(1)(i)3.), requires that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. We did not have any findings and recommendations to improve financial management, accounting procedures, and internal controls for the current annual financial audit report.

Rules of the Auditor General (Section 10.554(1)(i)4.), requires disclosure in the management letter of the following matters if not already addressed in the auditor's report on compliance and internal controls, whether there were violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. There were no such matters noted during our audit.

Rules of the Auditor General (Section 10.554(1)(i)5.), requires 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 to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred; (2) improper expenditures or illegal acts; (3) improper or inadequate accounting procedures (e.g., 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.

Rules of the Auditor General (Section 10.554(1)(i)6.), requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The information is disclosed in Note 1 to the financial statements.

This management letter is intended solely for the information of the Tax Collector, management of Palm Beach County, Florida Tax Collector's Office 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 19, 2008

**Tax Collector  
Palm Beach County, Florida**

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

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| <b>No.</b> | <b>Prior Year's Observations</b> | <b>Observation<br/>is Still<br/>Relevant</b> | <b>Observation<br/>Addressed<br/>or<br/>No Longer<br/>Relevant</b> |
|------------|----------------------------------|--|--|
| ML 06-01   | Application Security             |  | X  |
| ML 06-02   | Data Security                    |  | X  |
| ML 06-03   | IT Access                        |  | X  |
| ML 06-04   | Formal Security Programs         | X  |  |
| ML 06-05   | System Upgrades/Modifications    | X  |  |
| ML 06-06   | Security Access                  |  | X  |
| ML 06-07   | Security Training                | X  |  |

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

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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.

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

Prior Year 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.

Current Year Status and Management Response: A formal security program will be implemented in the 3<sup>rd</sup> quarter of 2008.

**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.

**Tax Collector  
Palm Beach County, Florida**

**Appendix A – Prior Year Recommendations to Improve  
Financial Management, Accounting Procedures  
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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 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.

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

Prior Year 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.

Current Year Status and Management Response: Formalized documentation and procedures will be implemented in the 3rd quarter of 2008.

**Tax Collector  
Palm Beach County, Florida**

**Appendix A – Prior Year Recommendations to Improve  
Financial Management, Accounting Procedures  
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**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.

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

Prior Year 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.

Current Year Status: A comprehensive training program has not been developed.

Current Year Management's Response: A program to provide ongoing comprehensive security awareness and training for new and continuing employees will be developed and implemented.