

Management Letter

To the Honorable Board of County Commissioners
Leon County, Florida

We have audited the special-purpose financial statements of the Board of County Commissioners of Leon County, Florida (the Board), as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated February 23, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in that report, which is dated February 23, 2009, 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. This letter includes the following information, which is not included on the aforementioned auditors' report.

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' report on internal controls and compliance, whether or not recommendations made in the preceding annual financial audit report have been followed. Corrective actions have been taken to address all findings and recommendations made in the preceding annual financial audit 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 Board complied with Section 218.415, *Florida Statutes*.

The *Rules of the Auditor General* (Section 10.554(1)(i)3.) require that we address in the management letter any recommendations to improve financial management. A summary of current year recommendations is as follows:

Establishment of a benchmark for cash reserves in the Insurance Service Fund

During our test of Self-Insurance, we noted that the cash balance and the net assets of the Insurance Service Fund are greater than the actuarially determined liability. The Board has not established a policy regarding cash reserves benchmarks in the Insurance Service Fund. We recommend that such policy be established and that the policy addresses the treatment of excess funds should losses incurred prove to be less than premiums charged to departments.

Management's Response:

During the budget process this year, OMB will bring forward a policy regarding cash reserves in the Insurance Service Fund. The policy will address the targeted amount to be in the reserves and the treatment of any excess funds.

Conflict of Interest Statement

A code of conduct and conflict of interest policy is included in the Board's human resources policies and procedures manual. All employees, upon hire, are required to provide a signed acknowledgment that they have received the manual. Our interviews of Board management and those charged with governance disclosed that the Board does not require employees to acknowledge receipt and review of the conflict of interest and code of ethics statements on an annual basis. Additionally, our interviews disclosed that employees and management were unaware of the existence of a fraud hotline to report activities inconsistent with Board's conflict of interest policy or code of ethics. To reinforce the Board's expectation of ethical behavior by its employees, and to reduce the risk of fraud, we recommend the code of conduct, conflict of interest policy, and anonymous reporting mechanisms be communicated to all employees on an annual basis. The Board should also consider a requirement to have all employees sign an acknowledgement that such communication has been made on an annual basis.

Management's Response:

Board staff has already received approval for the Board to establish a fraud and abuse hotline presence on the Board website. Additionally, Human Resources will review the recommendations related to the conflict of interest policy and the code of ethics. A recommendation will be made to the County Administrator to respond to these recommendations.

Logical Access Rights for Banner

During our testing of IT General Controls, it was noted the Board does not periodically monitor logical access rights for the financial system (Banner GL System) throughout the year to determine that only current authorized users have access. We noted four employees out of 308 current users tested that were terminated employees. Additionally, we noted the user code for one terminated employee was assigned to the replacement employee instead of creating a new unique user code. Although we noted the existence of this condition, we did not observe any general ledger transactions initiated by users with a terminated employee access code. We recommend that the Board implement a periodic review process of access rights in the Banner GL System. This review will increase the likelihood that access rights in the Banner GL System are appropriate and current.

Management's Response:

Board staff will implement a periodic review process of access rights to the Banner system. This review will ensure terminated employees' access is deleted.

SAS 70 Type II Report – Emergency Medical Services billing

The Board contracts with a third party administrator (ADPI) to provide emergency medical services billing and collections. Because such services generate material revenue on an annual basis for the Board, the Board is required to understand and monitor the operating effectiveness of ADPI's internal control over those services. Currently, that responsibility is fulfilled by the performance of a Type I SAS 70 report performed by an independent firm. A Type I SAS 70 report provides limited assurance to the Board that the ADPI's description of controls in place are accurate, that the controls are suitably designed to achieve the specified control objectives, and that the controls were in place as of a certain point in time. It does not provide any assurance regarding the operating effectiveness of those controls. A Type II SAS 70 report involves additional testing to determine whether the policies and procedures in place were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related control objectives were achieved during the specified period.

We recommend the Board include in its contract with ADPI an annual requirement to obtain a Type II SAS 70 report that specifically includes the location or branch performing the contracted services. In the absence of a Type II SAS 70 report, the Board should perform periodic monitoring of ADPI's key controls over billing, adjustment, and collection processes.

Management's Response:

Board staff will contact the vendor and ensure the recommendation is included in the contract.

Electronic check processing procedures

Our tests of transactions subsequent to September 30, 2008, identified one electronic check (ACH) processed for a materially incorrect amount. The error was properly detected during the reconciliation process between the check register and the actual invoice. However, because this payment was made electronically, the funds were already deducted from the Board's account. The vendor was notified the same day the ACH was transmitted and the excess funds were returned to the Board. To improve controls over the ACH process, we recommend that ACH transactions be reviewed by an individual who is not involved in the processing of the invoice prior to submission of the electronic transfer file to the bank. This independent review will increase the likelihood that errors will be prevented prior to the transaction being processed.

Management's Response:

An independent review will be done in the Finance Department processes.

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material, but more than inconsequential. In connection with our audit, we did not identify any such findings.

Section 10.554(1)(i)5., *Rules of the Auditor General*, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violation of laws, rules, regulations, and contractual provisions or abuse that have occurred, or are likely to have occurred; and (2) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.

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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 fund financial statements. The name or official title and legal authority for the primary government and each component unit of the reporting entity are disclosed in Note 1 of the Notes to the Special-Purpose Financial Statements. The Leon County Housing Finance Authority, a component unit of Leon County, was authorized pursuant to Chapter 159, Part IV, of the *Florida Statutes* and was created by Leon County Ordinance 80-39.

Our audit did not disclose any further items that would be required to be reported under the *Rules of the Auditor General*, Chapter 10.554(1)(i).

This management letter is intended solely for the information and use of the Board of County Commissioners of Leon County, Florida and the State of Florida, Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Thomas Howell Ferguson C.A. Law, Redd, Crona & Munroe, P.A.

February 23, 2009