



**Report on Compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

**Independent Auditors' Report**

Members of the Board of Education of the  
Henderson County School District  
Henderson, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited the Henderson County School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of the Henderson County School District's major federal programs for the year ended June 30, 2014. The Henderson County School District's major federal programs are identified in the Summary of the Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility:**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Henderson County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Henderson County School District's compliance with these requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, it does not provide a legal determination of the Henderson County School District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Henderson County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Internal Control Over Compliance**

The management of the Henderson County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit, we considered the Henderson County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major program, and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Henderson County School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be considered to be deficiencies, significant deficiencies, or material weaknesses, as defined above. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the remaining aggregate fund information of the Henderson County School District for the year ended June 30, 2014, and the related notes to the financial statements. We issued our report dated October 13, 2014, which contained an unmodified opinion on these financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the

underlying accounting and other records used to prepare the financial statements. The information has been subjected to audit procedures applied in the audit of the financial statements and certain procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects, in relation to the financial statements taken as a whole.

**Purpose:**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Myriad CPA Group, LLC".

Myriad CPA Group, LLC  
October 13, 2014



**Report on Internal Control Over Financial Reporting, Compliance  
and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with  
Government Auditing Standards  
Independent Auditors' Report**

Members of the Board of Education  
Henderson County School District  
Henderson, Kentucky

We have audited, in accordance with the 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 of America; and the audit requirements prescribed by the Kentucky State Committee for School District Audits as defined in *the Independent Auditors' Contract*, the financial statements of the governmental activities and the business type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of the Henderson County School District as of and for the year ended June 30, 2014, and have issued our report thereon dated October 13, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Henderson County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Henderson County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Henderson County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses and significant deficiencies may exist that have not been

identified. We did identify deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies [Items 2014-1, 2014-2, 2014-3 and 2014-4].

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Henderson County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and *Appendix II to the Independent Auditors' Contract-State Compliance Requirements* which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2014-5.

We also noted certain other matters that we reported to management of the Board in a separate letter dated October 13, 2014.

### **Response to Findings:**

The Board's response to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Board's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Myriad CPA Group, LLC".

Henderson, Kentucky  
October 13, 2014

**Henderson County School District**  
**Schedule of Expenditures of Federal Awards**  
**For the fiscal year ended June 30, 2014**

<b>Federal Grant/Pass Through Grantor/ Program Number</b>	<b>Federal CFDA No.</b>	<b>Pass Through Identifying Number</b>	<b>Federal Expenditures</b>
<b>Passed Through the Commonwealth of Kentucky Department of Education:</b>			
<b>United States Department of Agriculture:</b>			
Summer Food Service Program for Children	10.559	7740023	\$ 64,648
Summer Food Service Program for Children	10.559	7690024	6,013
<b>Subtotal- Summer Food Service Program for Children</b>			<b>70,661</b>
Child and Adult Care Food Program	10.558	7790021	33,703
Child and Adult Care Food Program	10.558	7800016	1,788
<b>Subtotal-Child and Adult Care Food Program</b>			<b>35,491</b>
National School Lunch Program	10.555	7750002	1,854,038
School Breakfast Program	10.553	7760005	634,617
<b>Total United States Department of Agriculture</b>			<b>2,594,807</b>
United States Department of Defense	12.000		184,214
<b>United States Department of Education:</b>			
Title 1	84.010	3100002-13	620,710
Title 1	84.010	3100002-14	1,179,951
<b>Subtotal Title 1</b>			<b>1,800,661</b>
Migrant Education	84.011	3110002-13	22,795
Migrant Education	84.011	3110002-14	53,446
<b>Subtotal Migrant Education</b>			<b>76,241</b>
Special Education Grants to States (IDEA)	84.027	3810002-13	527,612
Special Education Grants to States (IDEA)	84.027	3810002-14	1,040,805
<b>Subtotal Special Education Grants (IDEA)</b>			<b>1,568,417</b>
Career and Technical Education-Carl Perkins Carryforward	84.048	4621332-13	4,279
Career and Technical Education-Carl D. Perkins	84.048	3710002-14	72,990
<b>Subtotal Career and Technical Education</b>			<b>77,269</b>

<b>Federal Grant/Pass Through Grantor/ Program Number</b>	<b>Federal CFDA No.</b>	<b>Pass Through Identifying Number</b>	<b>Federal Expenditures</b>
Education for Homeless Children and Youth	84.196	3990002-13	4,107
Education for Homeless Children and Youth	84.196	3990002-14	45,536
<b>Subtotal- Education for Homeless Children and Youth</b>			<b>49,643</b>
Idea Part B- Preschool	84.173	3800002-13	13,629
Idea Part B- Preschool	84.173	3800002-14	50,736
<b>Subtotal Idea Part B- Preschool</b>			<b>64,365</b>
21st Century Community Learning Centers	84.287	3400002-13	99,492
21st Century Community Learning Centers	84.287	3400002-14	409,936
<b>Subtotal 21st Century Community Learning Centers</b>			<b>509,428</b>
Title III-LEP	84.365	3300002-13	7,777
Title III-LEP	84.365	3300002-14	20,769
Title III-Immigrant	84.365	3300002-13	5,105
<b>Subtotal- Title III-LEP</b>			<b>33,651</b>
School Improvement Grants (ARRA)	84.388	4100302-13	1,708
School Improvement Grants (ARRA)	84.388	4100302-14	5,928
<b>Subtotal-School Improvement Grants (ARRA)</b>			<b>7,636</b>
Title II- Improving Teacher Quality	84.367	3230002-13	102,976
Title II- Improving Teacher Quality	84.367	3230002-14	237,705
<b>Subtotal-Title II- Improving Teacher Quality</b>			<b>340,681</b>
Race to the Top	84.413	3960002-11	19,840
<b>Total Department of Education</b>			<b>4,547,832</b>
<b>Total Federal Awards Expended</b>			<b>\$ 7,326,853</b>

**HENDERSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the year ended June 30, 2014**

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**Note 1            Basis of Presentation:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Henderson County School District, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States and Local Governments and Non-Profit Organizations*.

**Note 2            Commodities Donation:**

Nonmonetary assistance for commodities donated is reported at the fair value of the commodities disbursed.



**Henderson County School District**  
**Schedule of Findings and Questioned Costs**  
**For the fiscal year ended June 30, 2014**

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**I. Summary of Audit Results:**

	<u>Results</u>
a. Type of report issued on financial statements.	Unmodified
b. Internal control over financial reporting:	
* Material weakness identified?	None Reported
* Significant deficiencies identified that are not considered to be material weaknesses?	Yes
c. Non-compliance material to financial statements noted?	Yes
d. Internal control over major programs:	
* Material weakness identified?	None Reported
* Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
e. Type of auditors report issued on compliance for major programs?	Unmodified
f. Any audit findings that are required to be reported in accordance with 510 (a) of Circular A-133?	None Reported
g. Identification of major programs:	
Title 1 84.010	\$ 1,800,661
IDEA Part B 84.027	\$ 1,568,417
h. Dollar threshold used to distinguish between Type A and Type B Programs.	\$ 300,000
i. Does the Henderson County School District qualify as a low risk auditee?	Yes

## **II. Findings - Financial Statement Audit-June 30, 2014:**

### **2014-01 Unallowable Expenditure from Student Activity Funds:**

#### **Condition:**

Our testing of disbursements of the student activity funds for Cairo School detected an expenditure in the amount of \$100 for the rental of a storage facility.

#### **Criteria:**

This type of expenditure is not allowed from student activity funds unless monies are raised for the specific purpose as per applicable statutes.

#### **Cause:**

Employees at this school were unaware that this expenditure was not allowed.

#### **Effect:**

Risk is present that funds could be misappropriated and not detected within a timely period.

#### **Recommendation:**

Management should consider providing additional training staff responsible for managing and performing accounting functions for activity funds as to allowable and unallowable activities.

#### **Management Response:**

Management concurs with this recommendation and will be implementing procedures at the location in question to strengthen accountability over activity funds via training.

#### **Questioned costs:**

Question costs of \$100 was noted as a result of this condition.

#### **Corrective Action:**

Management will immediately communicate to the staff responsible for the unallowable disbursement and will consider additional training for all staff responsible for handling activity funds.

**2014-02 Failure to Use of Standard Multiple Receipt Form - Student Activity Funds:**

**Condition:**

Our testing of the receipts cycle of the student activity funds for the District we noted several instances where staff failed to use the multiple receipt form.

**Criteria:**

Kentucky Department of Education regulations require that this form be used to record receipt of funds.

**Cause:**

Employees appear to be unaware of the requirement to use the standard receipt form when receiving funds.

**Effect:**

Risk is present that funds could be misappropriated or not properly accounted for and not detected within a timely period.

**Recommendation:**

Management should consider providing additional training staff responsible for managing and performing accounting functions for activity funds as to allowable and unallowable activities.

**Management Response:**

Management concurs with this recommendation and will be communicating to responsible staff the procedures as they relate to use of the standard multiple receipt form to strengthen accountability over activity fund receipts.

**Questioned costs:**

None.

### **2014-03 Improving Procedures Related to Accounting For Capital Assets:**

#### **Condition:**

During our audit, we noted that many capital assets had not been recorded in the capital asset fund as of June 30, 2014.

#### **Criteria:**

Good accounting practices require that capital assets be recorded in an expeditious fashion after purchase so as to account for the item.

#### **Cause:**

Employees responsible failed to enter the assets acquired in the system prior to June 30, 2014.

#### **Effect:**

Risk is present that assets could be misappropriated or not properly accounted for and such activity not detected within a timely period.

#### **Recommendation:**

Management should implement procedures to ensure assets are recorded in the capital assets fund at the point in the transaction cycle the asset is received.

#### **Management Response:**

Management concurs with this recommendation and will be communicating to responsible staff the procedures as they relate to having fixed assets entered into system in a timely manner.

#### **Questioned costs:**

None.

**2014-04 Improving Procedures Related to Accounting for Day Care Fund Revenues-Receipts:**

**Condition:**

During our audit, we noted that no one in the finance area is reviewing the reports related to daycare billings and receipts and comparing it to amounts deposited in the corresponding bank account.

**Criteria:**

Good accounting practices require that such reports be reconciled and compared to corresponding bank account activity to ensure funds are appropriately accounted for.

**Cause:**

No one has been assigned the responsibility to perform this function.

**Effect:**

Risk is present that assets could be misappropriated or not properly accounted for and such activity not detected within a timely period.

**Recommendation:**

Management should implement procedures to ensure cash deposited is balanced with the corresponding reports from the daycare system.

**Management Response:**

Management concurs with this recommendation and will be assigning this responsibility to central office staff.

**Questioned costs:**

None.

**2014-05 Publishing Annual Audit Report in Accordance with Kentucky Revised Statutes 424.220:**

**Condition:**

During our audit, we noted that the Board did not publish its annual audit report in accordance with Kentucky Revised Statute 424.220.

**Criteria:**

Kentucky laws and regulations require that the annual audit report be published in the newspaper or that a notice be published stating that the report is available on the District's web site.

**Cause:**

No one had been assigned the responsibility to perform this function.

**Effect:**

The effect is the District is not in compliance with the statute.

**Recommendation:**

Management should assign this function to one of its staff, and mark the calendar to ensure that this task is completed annually after the audit is presented to the Board of Education

**Management Response:**

Management concurs with this recommendation and will be assigning this responsibility to central office staff.

**Questioned costs:**

None.

**III. Findings and Questioned Costs-Major Federal Program Audit:**

None: There were no material findings and questioned costs related to major federal programs of the Henderson County School District for the fiscal year ended June 30, 2014.

**IV. Findings- Financial Statement Audit- Prior Year-June 30, 2013:**  
**2013-01 Enhancement of Monitoring and Related Controls Over Vending Machines:**

**Condition:**

A review of the controls and related processes for monitoring and reporting vending machine activity was noted that a machine at one location did not have the appropriate controls in place to adequately ensure all cash generated by the machine was properly accounted for, nor was access limited to the machine as several individuals had access to the key to access it.

**Criteria:**

The risk related to this condition is that funds generated from the vending machines could possibly be removed and diverted to other uses and the diversion of funds would not be detected.

**Cause:**

Employees at this location did not follow recommended procedures for accounting for funds generated from the vending machine .

**Effect:**

Risk is present that funds could be misappropriated and not detected within a timely period.

**Recommendation:**

Management should consider development of a basic report that reports sales, purchases, and inventory levels on a monthly basis for all vending machines. Such a report could easily be prepared using Excel. This report should be reviewed by a member of the finance office each month. Ideally, consideration should be given to going to a commission based system where the vendor assumes all responsibility for the machine and remits a commission on sales to the District on a monthly basis.

**Management Response:**

Management concurs with this recommendation and will be implementing procedures at the location in question to strengthen accountability over vending receipts. Consideration will also be given to going to a commission based system.

**Questioned costs:**

No question costs were noted as a result of this condition.

**Corrective Action:**

Management has revised procedures requiring dual controls over the collection of cash from the machines as well as control over inventory for certain schools. Other schools have converted to a commission based system where the vendor maintains the vending machines and collects and remits cash to the respective school.