



To the Board of Education
and Dr. Thomas Richey, Superintendent
of Henderson County School District

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County School District as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Henderson County School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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

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 a 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a 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. We consider the following deficiency in Henderson County School District's internal control to be a significant deficiency:

(2013-1) Enhancement of Controls over Vending Machines:

Condition:

A review of the processes and controls related to the collection of funds for vending machines indicated that at one location there were not effective controls over the removal of cash, accounting for receipts, and preparation of the related bank deposit. Additionally, access controls to the machine were not effective as we learned several employees had access to the key to the machine, instead of one individual being assigned custody.

Criteria:

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

Cause:

Employees at the location of this machine 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 in a timely period.

Recommendation:

We recommend that management ensure that controls over vending machines are in place as recommended by the Kentucky Department of Education and that one individual be assigned custody of the key, and that when funds are removed from the vending machines that two individuals be present and count the receipts for that period, and the funds be promptly delivered to the central office for deposit. The Board may want to consider going to a commission based system for its vending machines as some districts have done. A commission based system would eliminate the need for the District to maintain the machines and handle the receipt of funds. Under a commission based system the supplier would take care of all of these tasks, thus improving control over the cash generated from the vending machines.

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 questioned costs were noted as a result of this condition.

Corrective Action:

Management will immediately implement corrective measures via improved monitoring and reiterate to each school/location that prescribed policies and controls over vending machines will be adhered to by staff.

Prior Year Findings and Recommendations:

The following addresses the status of prior year findings and recommendations.

2012-01 Performance of Annual Fixed Asset Inventory:

Condition:

It was noted from inquiry of the finance director that an annual fixed asset inventory had not been performed for several years.

Criteria:

The risk related to this condition is that assets could possibly be removed and diverted to other uses and would not be detected.

Cause:

Management had no standard policy or procedure in place to require that an annual fixed asset inventory be performed.

Effect:

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

Recommendation:

Management should consider conducting a fixed asset inventory on a regular annual basis as a method of monitoring fixed assets and equipment.

Management Response:

Management concurs with this recommendation and will be scheduling a fixed asset inventory in the near future.

Questioned costs:

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

Corrective Action:

Management performed a fixed asset inventory for the year ended June 30, 2013, over significant items.

This communication is intended solely for the information and use of management, the Board of Education, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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

Myriad CPA Group, LLC
Henderson, Kentucky
September 10, 2013