

End. 10.15  
Nov. 18, 2010

**HORSEHEADS CENTRAL SCHOOL DISTRICT**

**Communication of Matters Related to Internal Control Over  
Financial Reporting and Other Matters  
September 2010**

**Bonadio & Co., LLP**  
Certified Public Accountants

September 2010

To the Board of Education of the  
Horseheads Central School District:

In planning and performing our audit of the financial statements of the Horseheads Central School District (the District) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, we did identify a deficiency in internal control that we consider to be a material weaknesses as described in the following report.

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

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**HORSEHEADS CENTRAL SCHOOL DISTRICT**

**COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS  
SEPTEMBER 2010**

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**A. INTRODUCTION AND STATUS OF PRIOR YEAR RECOMMENDATIONS**

During our financial statement audit of the District as of June 30, 2010, we identified a number of internal control recommendations. We are encouraged by the District's Administration and Board willingness to accept and address our previous recommendations.

In connection with our 2010 audit, we reviewed the status of our prior year's recommendations with Administration. Our suggestions resulting from the 2009 financial statement audit and Administration's status are as follows:

	<u>Completed</u>	<u>In-Process</u>
Prior period adjustments	X	
Current year adjustments		X
Payroll certification	X	
Fixed assets - capital projects accounting and reconciliation		X
Payroll processing - segregation of incompatible duties	X	
Cash receipt processing	X	

**B. INTERNAL CONTROL RELATED MATTERS**

*We have identified the following deficiency in internal control that we consider to be a material weakness:*

**1. PROJECTION ERROR IN FISCAL 2010 GENERAL FUND OPERATING RESULTS AND YEAR-END AUDIT ADJUSTMENTS - MATERIAL WEAKNESS**

**Observation**

During our audit process, we identified the following:

- 1) A significant projection error was made in the Spring 2010 by the School Business Administrator in projecting the General Fund surplus (deficit) for the year ending June 30, 2010. During the annual budget process, the General Fund was projected to have a deficit of (\$2,100,000). However, the audited General Fund surplus for the year ended June 30, 2010 was approximately \$564,000, a variance of \$2,664,000 between the projected deficit and the actual surplus reported for the General Fund.
- 2) During our year-end audit process, we identified a number of material audit adjustments which significantly reduced the District's pre-audit June 30, 2010 General Fund surplus from \$1,456,000 to the audited surplus of approximately \$564,000.

**B. INTERNAL CONTROL RELATED MATTERS (Continued)**

**1. PROJECTION ERROR IN FISCAL 2010 GENERAL FUND OPERATING RESULTS AND YEAR-END AUDIT ADJUSTMENTS - MATERIAL WEAKNESS (Continued)**

**Observation (Continued)**

Each of the matters described above provide evidence of the inability for the School Business Administrator to accurately project and report the District's financial results. Accordingly, we believe these matters represent a material weakness in the District's internal controls over financial reporting.

**Recommendations**

We believe that the District Board and Administration should seriously consider implementing the necessary personnel and procedural changes to reduce the risk of recurring errors related to District budget projections and financial reporting. Specifically, we believe that consideration should be given to the following recommendations:

- 1) Based on the facts described above, the School Business Administrator has not demonstrated the ability to accurately project year-end financial results or close the District's financial records accurately. Accordingly, we believe that additional people resources with the necessary expertise and experience in school district finances and accounting should be identified to take primary responsibility for these very important areas.
- 2) During the annual budget process and the development of projected financial results for the District General Fund, the Board should consider whether a third party independent review of the projected financial results and budget assumptions would be appropriate to mitigate the risk of similar errors occurring in the future.
- 3) We understand that the Greater Southern Tier (GST) BOCES has developed resources to provide additional expertise and support to member districts in the area of budgeting and financial reporting. The District Board and Administration may want to consider contracting with the GST BOCES for additional people resources in this area.

The credibility of the District Board and administration is heavily dependent upon the District's ability to estimate, calculate and report accurate financial information and budget estimates. The errors which occurred in fiscal year 2010 in the budgeting and financial reporting areas clearly demonstrate that changes must be implemented to reduce or eliminate the risk of errors, omissions and inaccuracies in the District's financial reporting.

**B. INTERNAL CONTROL RELATED MATTERS (Continued)**

*We have identified the following deficiency in internal control that we do not consider to be a material weakness:*

**2. CAPITAL ASSET DISPOSAL APPROVAL**

**Observation**

We noted during the audit that the disposal of capital assets does not require a formal, written request for the disposal, supported by appropriate supervisory approval.

**Recommendation**

We recommend that the District develop and incorporate formal documentation for the approval of disposals of capital assets into its capital assets disposal policy. Documentation may include purchase offer, justification for disposal, evidence of Board and department approval, and documentation of value received, if sold. The requirement of this documentation will strengthen the District's oversight over its capital assets.