

**AUDIT COMMUNICATIONS LETTER**  
**BOONE COUNTY REGIONAL SEWER DISTRICT**  
**DECEMBER 31, 2016**

**GK&C**  
GERDING, KORTE & CHITWOOD

Professional Corporation  
Certified Public Accountants



GERDING, KORTE & CHITWOOD CPAS  
 Professional Corporation  
 Certified Public Accountants

May 2, 2017

To the Board of Trustees of  
 Boone County Regional Sewer District  
 Columbia, Missouri

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In planning and performing our audit of the financial statements of the business-type activities of Boone County Regional Sewer District as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Boone County Regional Sewer 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 an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Boone County Regional Sewer District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Boone County Regional Sewer 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.

Our comments concerning internal control and other significant matters are presented as follows:

- I. Deficiencies Considered to be Material Weaknesses
- II. Deficiencies Considered to be Significant Deficiencies
- III. Status of Prior Year Comments
- IV. Professional Standards Communication

PARTNERS

*Fred W. Korte, Jr.*  
*Joseph E. Chitwood*  
*Travis W. Hundley*  
*Jeffrey A. Chitwood*  
*Amy L. Watson*  
*Heidi N. Ross*

PARTNER EMERITUS

*Robert A. Gerding*

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

We want to express our sincere appreciation to Tom Ratermann, Lesley Oswald and other staff for the cooperation and assistance received during the audit engagement and for the opportunity to serve Boone County Regional Sewer District.

Sincerely,

*Gerding, Korte & Chitwood*  
Gerding, Korte & Chitwood  
Certified Public Accountants

## **I. DEFICIENCIES CONSIDERED TO BE MATERIAL WEAKNESSES**

We noted no deficiencies that are considered to be material weaknesses.

## **II. DEFICIENCIES CONSIDERED TO BE SIGNIFICANT DEFICIENCIES**

### **A. Segregation of Duties**

The objectives of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded and the financial statements are reliable. When the duties of one employee involve complete control over most, or all, aspects of an accounting cycle, without the involvement of other intervening employees, conflicts with the internal control objective may arise. This kind of conflict is generally referred to as a lack of segregation of duties. The Boone County Regional Sewer District has potential conflicts with personnel who have the ability to record, reconcile and report financial activity.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **B. Bond Covenant Compliance**

The State Direct Loan Program requires participants to maintain a debt service coverage ratio of 110%. At December 31, 2016, the District's debt service coverage ratio was 94%. The District's debt service coverage ratio fell below the required 110%. The components of operating income should be monitored to ensure compliance with the debt service coverage ratio.

## **III. STATUS OF PRIOR YEAR COMMENTS**

### **A. Segregation of Duties**

*Condition:* The District has potential conflicts with personnel who have the ability to access, record, adjust, reconcile and report all financial activity of the Sewer District. It is important for the Board and management to be aware of such risks.

*Status:* This item continues to be a finding and has been addressed on the Schedule of Findings and Questioned Costs and Summary of Auditors Results – Federal Requirements on Page 31 item 2016-001.

## **B. Fixed Asset Recording and Reporting**

*Condition:* In 2015, we noted accumulated depreciation remaining on the depreciation schedule and financial statements for assets written off several years ago. The assets' cost was correctly removed from the depreciation schedule and financial statements, but the related accumulated depreciation was never removed. Also, we noted a piece of donated land that was never recorded on the District's fixed asset schedule or financial statements. The land was sold during the year ended December 31, 2015.

*Status:* During current year testing, we noted no issues with the accuracy of the depreciation schedule and fixed asset listing. It appears this issue has been adequately addressed.

## **C. Timesheet Approval**

*Condition:* Timesheets should be reviewed for completeness and accuracy and then signed by the employee and management to reflect official approval for each timesheet. We noted timesheets were not officially being approved by management.

*Status:* During current year testing, we noted no issues with timesheets not being officially approved by management. It appears this issue has been adequately addressed.

# **IV. PROFESSIONAL STANDARDS COMMUNICATION**

## **A. Nature of Engagement**

We were engaged to perform an opinion audit of the Boone County Regional Sewer District's financial statements as of and for the year ended December 31, 2016.

## **B. Our Responsibility Under Generally Accepted Auditing Standards and *Government Auditing Standards***

As stated in our engagement letter dated February 16, 2017, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement.

Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Boone County Regional Sewer District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **C. Qualitative Aspects of Accounting Practices**

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Boone County Regional Sewer District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended December 31, 2016. We noted no transactions entered into by the Sewer District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of depreciation expense is based on consideration of useful lives of assets. We evaluated the key factors and assumptions used to develop the estimate of depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of allowance for doubtful accounts is based on an analysis of the collectability of accounts. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

### **D. Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all misstatements, identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

**E. Disagreements with Management**

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

**F. Management Representations**

We have requested certain representations from management that are included in the management representation letter dated May 2, 2017.

**G. Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Boone County Regional Sewer District's financial statements or a determination of the type of auditors' opinion that may be expressed on those financial statements, our professional standards require the consulting accountant to contact us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**H. Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as Boone County Regional Sewer District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**I. Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

**J. Other Matters**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.