

Agenda Item: 6.

MEMORANDUM

To: Finance, Expenditures and Legal Subcommittee

Subject: Renewal of Audit Contract with HSMC Orizon, LLC

Date: March 8, 2013

From: Carey Fry, District Accountant

Under Policy 15.2.B.3 of the Directors' Policy Manual, the District shall obtain bids for auditing services at a minimum of every five years. In April 2011, the Board approved a two-year contract with HSMC Orizon, LLC (formerly Orizon CPAs, LLC). Due to the complexity of our organization and the inherent learning curve any firm experiences with a new client, it is advantageous to retain the same audit firm for at least five years. As the auditors gain a thorough understanding of our processes, they are better able to recommend possible improvements. Therefore we would prefer to extend Orizon's contract for the remaining three years of the five-year period. The audit fees would be \$42,000 for FY13, \$43,000 for FY14, and \$44,000 for FY15 per the engagement letter attached. We paid \$49,942 for FY11 and \$42,000 for FY12.

- **It is staff's recommendation that the FEL Subcommittee recommend to the Board of Directors that the General Manager be authorized to execute a contract for auditing services with HSMC Orizon, LLC for FY2013 through FY2015, subject to approval as to form by the District's legal counsel.**

HSMC ORIZON LLC
CPAs, BUSINESS & TECHNOLOGY CONSULTANTS
16924 FRANCES STREET
OMAHA, NEBRASKA 68130



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February 13, 2013

Papio-Missouri River Natural Resources District
8901 S. 154th Street
Omaha, NE 68138

We are pleased to confirm our understanding of the services we are to provide for Papio-Missouri River Natural Resources District. We will audit the basic financial statements of Papio-Missouri River Natural Resources District as of June 30, 2013, 2014 and 2015 and for the years then ended. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as Management's Discussion and Analysis (MD&A), to supplement Papio-Missouri River Natural Resources District's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to Papio-Missouri River Natural Resources District's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of Papio-Missouri River Natural Resources District and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we may assist with preparation of your financial statements and related notes. You agree to assume all management responsibilities relating to the financial statements and related notes. You will be required to acknowledge in the written representation letter our assistance with preparation of the financial statements and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them.

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Management is responsible for establishing and maintaining effective internal controls, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, each major fund, and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for ensuring that management is reliable and financial information is reliable and properly recorded. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of

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assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedures—Compliance

Our audit of Papio-Missouri River Natural Resources District's major federal award program compliance will be made in accordance with the requirements of the Single Audit Act, as amended; and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and will include tests of accounting records, a determination of major programs in accordance with Circular A-133, and other procedures we consider necessary to enable us to express an opinion on major federal award program compliance and to render the required reports. If our opinion on compliance for any major program is other than unqualified, we will fully discuss the reasons with you in advance.

Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the entity has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major federal award programs. Our procedures will consist of determining major federal programs and performing the applicable procedures described in the U.S. Office of Management and Budget Circular A-133, *Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the entity's major programs. The purpose of those procedures will be to express an opinion on the entity's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to Circular A-133.

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Also, as required by Circular A-133, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing and detecting material noncompliance with compliance requirements, applicable to each of the entity's major federal award programs. However, our tests will be less in scope that would be necessary to render an opinion on these controls and, accordingly no opinion will be expressed in our report.

We will issue a report on compliance that will include an opinion or disclaimer of opinion regarding the entity's major federal award programs, and a report on internal controls over financial compliance that will report any significant deficiencies and material weaknesses identified; however, such report will not express an opinion on internal control.

Engagement Administration, Fees, and Other

We understand that your employees will provide a complete and accurate trial balance upon commencement of our fieldwork, prepare all cash or other confirmations we request, locate any documents selected by us for testing, prepare supporting schedules for all significant account balances and prepare the financial statements in accordance with generally accepted accounting principles.

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

The audit documentation for this engagement is the property of HSMC Orizon LLC and constitutes confidential information. However, we may be requested to make certain audit documentation available to federal agencies and the U.S. Government Accountability Office pursuant to authority given to it by law or regulation. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of HSMC Orizon LLC's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to these agencies and regulators. The regulators and agencies may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies. The audit documentation for this engagement will be retained for a minimum of five years after the report release date, as required by *Government Auditing Standards*.

Gene Garrelts is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Our fee for the audit of your financial statements under a three year contract will be \$42,000 for the year ending June 30, 2013, \$43,000 for the year ending June 30, 2014, and \$44,000 for the year ending June 30, 2015.

Our fees for other additional services, including the additional audit procedures relating to fraud or suspected fraud, assistance with accounting matters and reconciling accounts, consultation on accounting or financial reporting issues, corrections or adjustments to the financial statements, footnotes or supplementary information will be billed at our standard hourly rates, plus out-of-pocket expenses.

In accordance with the requirements of *Government Auditing Standards* we have attached a copy of our latest external peer review report of our firm for your consideration and files.

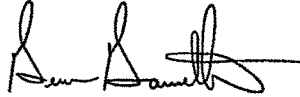
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We appreciate the opportunity to be of service to Papio-Missouri River Natural Resources District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,



Gene G. Garrelts, CPA, CFP
For the Firm

RESPONSE:

This letter correctly sets forth the understanding of Papio-Missouri River Natural Resources District.

By: _____

Title: _____

Date: _____



HANSEN, BARNETT & MAXWELL, P.C.
Certified Public Accountants

SYSTEM REVIEW REPORT

December 14, 2011

To the Owners
Orizon CPAs LLC

We have reviewed the system of quality control for the accounting and auditing practice of Orizon CPAs LLC (the firm) in effect for the year ended April 30, 2011. Our review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of performing and reporting in conformity with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitation of and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Orizon CPAs LLC in effect for the year ended April 30, 2011, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Orizon CPAs LLC has received a peer review rating of *pass*.

A handwritten signature in cursive script that reads "Hansen, Barnett & Maxwell, P.C." is written over a horizontal line.



Registered with the Public Company
Accounting Oversight Board

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