

## MEMORANDUM

TO: Finance, Expenditures and Legal Subcommittee

SUBJECT: Amendment to Bland and Associates Audit Proposal

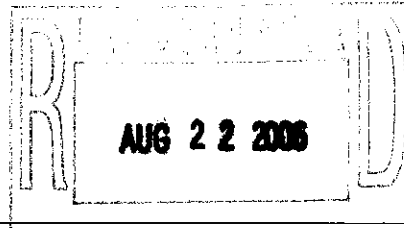
DATE: September 8, 2006

FROM: Jack Lawless, District Accountant

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Earlier this year the District took bids on the Audit and received only one response. That response was from Bland and Associates, our current auditors. Their bid for this year was \$34,000 plus \$400 for miscellaneous expenses. We accepted this bid. When it came time to sign the engagement letter, Bland and Associates notified us that there were certain directives that expanded the audit and the cost of the audit would go up approximately 10%. An explanation of these directives and new auditing standards is provided in the attached August 16, 2006 letter from Bland Associates. We signed an engagement letter (attached) for \$37,400 plus \$400 for miscellaneous expenses. This will not impact the budget as we have budgeted \$34,400 for the District's portion of the audit, and we have budgeted an additional \$6,000 for the four Rural Waters' portion of the budget which are all included in the agreement. We will be well under those estimates.

**Management recommends that the Subcommittee recommend to the Board of Directors that the Acting General Manager be authorized to execute the audit agreement with Bland and Associates for a total amount of \$37,400 plus \$400 for miscellaneous expenses.**



INDEPENDENT  
MEMBERS OF  
**B K R**  
INTERNATIONAL

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8712 West Dodge Road • Suite 200 • Omaha, NE 68114 • ~~(402) 397-8822~~ • Fax (402) 397-8649

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August 16, 2006

Mr. Marlin Petermann, Acting General Manager  
Papio-Missouri River Natural Resources District  
8901 South 154<sup>th</sup> Street  
Omaha, NE 68138

Re: New Auditing Standards

Dear Marlin:

We appreciate the opportunity to be of service to the Papio-Missouri River Natural Resources District and are issuing this letter to notify you of changes within our profession that directly affect our procedures and cost in the performance of our contracted engagement.

A new day has dawned in auditing in the United States of America and around the world. New auditing standards are being issued by various standard setters at a dramatic pace, making it more challenging each day just to keep up.

Not since 1988, when the Accounting Standards Board issued nine new "Expectation Gap" Statements on Auditing Standards (SASs), have so many significant new SASs been issued so closely together in time. Many of the provisions in these new SASs are aimed at making certain requirements in Auditing Standards Generally Accepted in the United States of America (U.S. GAAS) conform to the pronouncements of other national and world-wide audit standard setters. And many of the provisions in these new SASs will result in more time spent by auditors in conducting U.S. GAAS audits. As can be expected, the quest for higher quality audits will continue to challenge auditors to maintain and improve their knowledge of professional audit standards in order to better serve the public interest.

The American Institute of Certified Public Accountant's Accounting Standards Board has issued eleven new standards (SAS 102-112) since the date of our previous engagement. These new standards will require additional audit procedures, more documentation, higher levels of assurance to support our opinions, increased responsibility in assessing risk, altering our communication of internal controls to management, and numerous other changes.

One example of a change with major impact on governmental audits is the expansion of required documentation of activities or events that occur after the entity's year end, but prior to the issuance of the audit report. Since some information that is necessary to complete a governmental audit is not available until well after year end, auditing procedures must be extended and specific identification of those procedures must be adequately documented. This includes management's representations and attorney related disclosures.

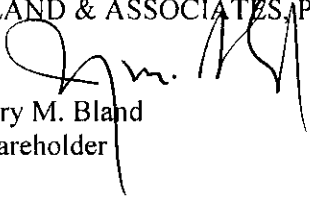
These changes will require us to increase our fees approximately 10-20% from our present contract.

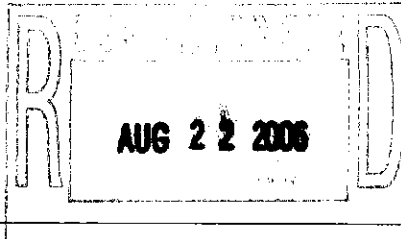
August 16, 2006  
Mr. Marlin Petermann, Acting General Manager  
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Please review this letter with the Board in conjunction with our engagement letter for the year ended June 30, 2006. If you have any questions, or would like to discuss specific standard changes, please let us know.

Very truly yours,

BLAND & ASSOCIATES, P.C.

  
Jerry M. Bland  
Shareholder



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August 11, 2006

Mr. Marlin Petermann, Acting General Manager  
Papio-Missouri River Natural Resources District  
8901 South 154<sup>th</sup> Street  
Omaha, NE 68138

Dear Mr. Petermann:

We are pleased to confirm our understanding of the services we are to provide Papio-Missouri River Natural Resources District, hereinafter referred to as the District, for the year ended June 30, 2006. 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 of Papio-Missouri River Natural Resources District as of and for the year ended June 30, 2006. The document we submit to you will include a Management's Discussion and Analysis as supplemental information required by accounting principles generally accepted in the United States of America. The Management's Discussion and Analysis will be subjected to certain limited procedures, but will not be audited.

Also, the document we will submit to you will include the following additional information that will be subjected to the auditing procedures applied in our audit of the financial statements upon which we will provide an opinion in relation to the basic financial statements:

1. Schedule of Expenditures of Federal Awards
2. Statement of Revenues, Expenditures, and Changes in Fund Balance – Actual and Budget (Budgetary Basis) -General Fund
3. Statement of Revenues, Expenses, and Changes in Net Assets – Actual and Budget (Budgetary Basis) – Proprietary Funds
4. Statement of Functional Revenues, Expenditures, and Changes in Fund Balance - General Fund
5. Statement of Net Assets – Non-Major Proprietary Funds
6. Statement of Revenues, Expenses, and Changes in Net Assets – Non-Major Proprietary Funds
7. Schedule of Investments – General Fund
8. Schedule of Investments – Proprietary Funds
9. Schedule of Insurance Policies and Bonds
10. Schedule of Taxes Receivable – General Fund
11. Schedule of Cash Balances Held by County Treasurers
12. Information Required by Section 2-3223, N.R.S.-1943

### Audit Objectives

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on—

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Mr. Marlin Petermann, Acting General Manager

Papio-Missouri River Natural Resources District

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- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of the audit committee, management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, 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 such an opinion and to render the required reports. If our opinion on the financial statements or the Single Audit compliance opinion is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

### **Management Responsibilities**

Management is responsible for establishing and maintaining effective internal control and for compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of basic financial statements in accordance with accounting principles generally accepted in the United States of America, and that federal award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us, including any significant vendor relationships in which the vendor has the responsibility for program compliance. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, including the schedule of expenditures of federal awards, but the responsibility for the financial statements remains with you. As part of our engagement, we may propose standard, adjusting, or correcting journal entries to your financial statements. You are responsible for reviewing the entries and understanding the nature of any proposed entries and the impact they have on the financial statements. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets.

August 11, 2006

Mr. Marlin Petermann, Acting General Manager

Papio-Missouri River Natural Resources District

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Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the 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.

Management is 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 or illegal acts affecting the government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud or illegal acts could have a material effect on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud or illegal acts 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 and regulations 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. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review on July 31, 2006.

As part of the audit, we will prepare a draft of your financial statements, schedule of expenditures of federal award, and related notes. In accordance with *Government Auditing Standards*, you will be required to review and approved those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

#### **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. 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 a) errors, b) fraudulent financial reporting, c) misappropriation of assets, or d) 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. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, our audit will include test of transactions related to major federal award programs for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material errors, fraud, other illegal acts, or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

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Mr. Marlin Petermann, Acting General Manager  
Papio-Missouri River Natural Resources District  
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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, creditors, and financial institutions. We will also 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 also require certain written representations from you about the financial statements and related matters.

#### **Audit Procedures—Internal Controls**

In planning and performing our audit, we will consider the system of internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinions on Papio-Missouri River Natural Resources District's financial statements and on its compliance with requirements applicable to major programs.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. 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 basic 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 basic financial statements. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. 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*.

As required by OMB 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 or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on the system of internal control or to identify reportable conditions. However, we will inform the governing body or audit committee of any matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We will also inform you of any non-reportable conditions or other matters involving the system of internal control, if any, as required by *Government Auditing Standards* and OMB Circular A-133.

#### **Audit Procedures—Compliance**

Our audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those

August 11, 2006

Mr. Marlin Petermann, Acting General Manager  
Papio-Missouri River Natural Resources District  
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procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

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

#### **Audit Administration, Fees, and Other**

We understand that the District employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any invoices selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings; however, it is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. At the conclusion of the engagement, we will provide information to management as to where the reporting packages should be submitted and the number to submit.

The audit documentation for this engagement is the property of Bland & Associates, P.C. and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain documentation available to cognizant or grantor agencies pursuant to authority given to it by law or regulation. We will notify you of any such request. If requested, access to such documentation will be provided under the supervision of Bland & Associates, P.C. personnel. Furthermore, upon request, we may provide photocopies of selected documentation to the aforementioned parties. These parties may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

The documentation for this engagement will be retained for a minimum of three years after the date the auditors' report is issued or for any additional period requested by the cognizant or grantor agency. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party contesting the audit finding for guidance prior to destroying the documentation.

We expect to issue our reports no later than the October Board of Director's meeting assuming all requested information is timely received.

Our fees will be at our standard hourly rates, not to exceed \$37,400, plus out-of-pocket costs (such as report reproduction, typing, postage, travel, copies, telephone, etc.) of \$400. This represents an estimated 10% increase over our proposed amount due to the issuance of additional auditing standards increasing the amount of work required to comply with these standards. We have discussed this matter in more detail in a separate



August 11, 2006

Mr. Marlin Petermann, Acting General Manager  
Papio-Missouri River Natural Resources District  
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letter. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed even if we have not completed our reports. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. Our fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit.

*Government Auditing Standards* require that we provide you with a copy of our most recent peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2005 peer review report accompanies this letter.

We appreciate the opportunity to be of service again 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.

Very truly yours,

BLAND & ASSOCIATES, P.C.

  
Jerry M. Bland  
Managing Shareholder

RESPONSE:

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

By: Marlin J. Petermann

Title: Acting General Manager

Date: 8-22-06



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8712 West Dodge Road • Suite 200 • Omaha, NE 68114 • (402) 397-8822 • Fax (402) 397-8649

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September 11, 2006

Mr. Marlin Petermann, Acting General Manager  
Papio-Missouri River Natural Resources District  
8901 S. 154<sup>th</sup> Street  
Omaha, NE 68138

Dear Mr. Petermann:

The purpose of this letter is to explain the circumstances that necessitated the 10% increase in professional fees from our original proposal. We value our reputation for honest dealings with clients and want to ensure that our fee increase is sufficiently detailed for everyone to understand.

The American Institute of Certified Public Accountants (AICPA) Accounting Standards Board has issued eleven new Statements on Auditing Standards (SASs) since our previous engagement. These new standards require additional audit procedures, more documentation, higher levels of assurance to support our opinions, increased responsibility in assessing risk, altering our communication of internal control to management, and numerous other changes.

One example of a change with major impact on governmental audits is the expansion of required documentation of activities or events that occur after the entity's year end, but prior to the issuance of the audit report. We refer to this as "post-balance sheet review procedures." A significant amount of information necessary to complete a governmental audit is not available until well after year end; accordingly, the actual auditing procedures must be extended to the period after year end but before the release of the audit report. These procedures must be clearly described and documented. It is almost like extending the year end of the entity. In addition to the expanded audit procedures, management's representations as well as the District's attorney's disclosures must also address the extended period of time specifically.

These eleven new SASs were issued in December 2005, but the issued documents did not specify the particular procedures that would be necessary to satisfy their requirements. We were therefore aware of the issuance of these standards but not of their impact on our procedures when we submitted our proposal to audit the District's financial statements. Based on our internal interpretation of the new SASs, we believed that our standard firm procedures and documentation would have to be only slightly modified to meet the new AICPA standards. We therefore bid the District's audit at an appropriate level based on our understanding of the new SASs.

Once the official SAS interpretations detailing the extended procedures and documentation requirements began to be released (after the Board of Directors accepted our bid), we realized that the impact on auditing procedures and additional documentation was more far-reaching than we had anticipated. We therefore notified the District that these procedure and documentation requirements would necessitate extra time performing certain portions of the audit, which would result in increased audit fees. A schedule is enclosed that describes the additional procedures we will be performing and how these procedures translate into \$3,400 of additional professional fees.

September 11, 2006

Mr. Marlin Petermann, Acting General Manager

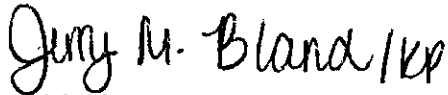
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Our firm policy is to discuss any additional procedures with the client and come to an agreement on the additional fees that will be necessary.

We appreciate the opportunity to serve the District and hope this letter sufficiently clarifies the situation. Please contact me if you have any questions regarding our audit fees, the new Statements on Auditing Standards, or any other aspects of our engagement.

Sincerely,

BLAND & ASSOCIATES, P.C.

Handwritten signature of Jerry M. Bland in black ink, written in a cursive style.

Jerry M. Bland  
Shareholder

Enclosure

**Papio-Missouri River NRD  
Additional Audit Procedures  
June 30, 2006**

PROCEDURE	HOURS	RATE	FEES
Documenting certain planning and completion procedures more thoroughly in the workpapers to comply with SAS 103, 106, & 108	10	\$ 100	\$ 1,000
Scanning of General Ledger from July 1, 2006 to report date looking for significant transactions subsequent to the fiscal year end	3	70	210
Depending on the significant transactions found, examining invoices/receipt documentation	4	70	280
Examining check registers through the report date looking for material additional accounts payable	4	70	280
Inquiring about additional commitments & contingencies	1	70	70
Reading/summarizing the board meeting minutes for July, August, September 2006	3	70	210
Performing detailed analytical analysis to determine reasonability of account balances, obtaining explanations for unusual instances	8	100	800
Manager review of additional procedures	<u>3</u>	200	<u>600</u>
	<u>36</u>		3,450
Write-down			<u>(50)</u>
Total increase in fees from original bid			<u>\$ 3,400</u>