



# Erickson & Associates, S.C.

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## MANAGEMENT LETTER

June 24, 2015

To the Commissioners of  
Heart of the Valley Metropolitan Sewerage District  
Kaukauna, Wisconsin

In planning and performing our audit of the financial statements of Heart of the Valley Metropolitan Sewerage District for the year ended December 31, 2014, in accordance with the auditing standards generally accepted in the United States of America, 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.

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 significant deficiencies or material weaknesses, and therefore, there can be no assurance that all such deficiencies have been 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 District'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 deficiencies in the District's internal control to be significant deficiencies.

### **Financial Statement Preparation:**

The District has historically relied upon its auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the District's internal controls. However, the additional costs of hiring staff experienced in preparing financial statements, along with additional training time, outweigh the derived benefits. We recommend that the District continues to evaluate the cost/benefit of outsourcing the task of preparing the financial statements to the external auditors.

**Number and Type of Journal Entries:**

As a part of our audit, we prepared several journal entries. Of these entries, two were non-cash entries that affected fixed assets - recording depreciation expense of \$2,082,042 and loss on disposal of fixed assets of \$90,164. A large fixed asset entry was made to transfer \$505,675 from interceptor/manhole rehabilitation expense to construction in progress interceptor/manhole rehabilitation and another entry was made to record the non-cash recognition of deferred revenue of \$153,719. Because of budgetary vs. GAAP basis, none of these entries affected budgetary basis reporting. Reviewing the qualitative nature of these entries, as well as the quantity, has led us to conclude that the need for us to prepare these entries constitutes a significant deficiency.

**Conclusion**

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

Sincerely,

*Erickson & Associates, S.C.*

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