

AUDIT COMMUNICATIONS LETTER

**CITY OF HALLSVILLE
HALLSVILLE, MISSOURI**

JUNE 30, 2021



November 24, 2021

To the Board of Aldermen
City of Hallsville
Hallsville, Missouri

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In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hallsville, Missouri as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Hallsville’s internal control over financial reporting (internal control) as a basis for designing auditing 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 City of Hallsville’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hallsville’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, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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 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 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 item discussed in Section II of this letter to be a significant deficiency.

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

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

PARTNERS
Fred W. Korte, Jr.
Joseph E. Chitwood
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Jeffrey A. Chitwood
Amy L. Watson

PARTNER EMERITUS
Robert A. Gerding

This communication is intended solely for the information and use of management, the Board of Aldermen and others within the organization, 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 for the cooperation and assistance received during the audit engagement and for the opportunity to serve the City of Hallsville.

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. SIGNIFICANT DEFICIENCIES

A. Segregation of Duties over Financial Reporting

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.

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. City of Hallsville has potential conflicts with personnel who have the ability to access, record, adjust and report financial activities.

To mitigate the risk resulting from the lack of segregation of duties we recommend that management diligently monitor the results of review procedures and consider periodic rotation of duties among accounting staff.

III. STATUS OF PRIOR YEAR COMMENTS

A. Segregation of Duties

This item continues to be an issue and is noted as Item A in Section II.

IV. PROFESSIONAL STANDARDS COMMUNICATION

A. Nature of Engagement

We were engaged to perform an opinion audit of the City of Hallsville's financial statements as of and for the year ended June 30, 2021.

B. Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated September 16, 2021, 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 City of Hallsville. 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 Principles

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 the City of Hallsville 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 June 30, 2021.

We noted no transactions entered into by the City of Hallsville 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 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. We proposed no adjusting journal entries for the year ended June 30, 2021.

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 auditor's 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 November 24, 2021.

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 City of Hallsville's financial statements or a determination of the type of auditor's 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 the City of Hallsville'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 the modified cash basis of accounting 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 records used to prepare the financial statements or to the financial statements themselves.