



Board of Directors and Management
Vadnais Lake Area Water Management Organization
Vadnais Heights, Minnesota

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the Vadnais Lake Area Water Management Organization (the Organization) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization'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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a certain deficiency in internal control that we consider to be a material weakness.

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 Organization's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material weaknesses

We consider the following deficiencies in the Organization's internal control to be material weaknesses.

Financial reporting process

The board of directors and management share the ultimate responsibility for the Organization's internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced.

The Organization engages CliftonLarsonAllen LLP (CLA) to assist in preparing its financial statements and accompanying disclosures, including adjustments for the conversion from modified to full accrual balances. Adjustments also included recording special assessments receivable and other receivables and payables. However, as independent auditors, CLA cannot be considered part of the Organization's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the Organization has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the Organization's activities and operations.

Material weaknesses (continued)

Financial reporting process (continued)

The Organization's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the Organization's financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis. If the financial statements are not properly monitored, the financial statements on a monthly basis may not be consistent with the annual financial statements.

The outsourcing of this service is not unusual in organizations of your size and is a result of management's cost benefit decision to use our accounting expertise rather than to incur internal resource costs.

Other deficiencies in internal control and other matters

During our audit, we became aware of other deficiencies in internal control and other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. While the nature and magnitude of the other deficiencies in internal control were not considered important enough to merit the attention of the board of directors they are considered of sufficient importance to merit management's attention and are included herein to provide a single, comprehensive communication for both those charged with governance and management.

Documentation and review

During our testing of internal controls, it was noted in several areas the documentation of review was not retained or indicated on the supporting statements. These areas include payroll registers, bank reconciliations, and journal entries. We recommend the Organization review their policies and procedures and ensure a formal review process is in place for all areas. These review processes should include proper documentation of the reviews.

Credit cards

During our testing of credit card disbursements, it was noted the Administrator's credit card statements are being reviewed by the Water Resource Technician. Proper level of authority should be reviewing activity to ensure appropriate charges. We recommend the Administrator's activity be reviewed by a member of the board of directors periodically and that this review is documented.

Fund balance policy

During our preparation of the financial statements, it was noted the Organization is not meeting their own fund balance policy of keeping unassigned fund balance at 35-50% of next year's budgeted expenditures. In prior year unassigned fund balance was 13% of next year's budgeted expenditures and in the current year unassigned fund balance was 32%. Not aligning with policies related to fund balance can lead to cash flow problems in the future. We recommend reviewing the next year's budget and reviewing the fund balance policy to ensure proper cash flow and adherence to such policy.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 24, 2019