



Board of Trustees and Management  
Lakeville Fire Relief Association  
Lakeville, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, general fund, and the special pension fund of Lakeville Fire Relief Association (the Association) 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 Association'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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

### **Material weaknesses**

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

- **Segregation of Duties**

There is a lack of segregation of duties within the Association's record keeping system. Most of the Association's bookkeeping functions, including receipting and recording of receipts and disbursing and recording of expenses may be handled by one person, the treasurer. While the senior accountant for the City of Lakeville aids in some of these processes, there is nothing in place to keep the treasurer from performing all accounting functions for any single or multiple transactions. The effect of these items is an increase in the potential for errors or omissions to occur and not be detected in the normal course of business. This condition is inherent in many small governmental or business entities.

The Association already has in place some controls to help mitigate the lack of segregation of duties such as: approving the treasurer's report at meetings, requiring adequate documentation for all checks written, and having someone else available to help with reconciling activities. These are important internal controls in a small organization and the Association's board and members need to continue these oversight practices. We also understand that the Association requires two signatures on all checks written (both the General Fund and the Pension Trust Fund). This is another way to help mitigate risks associated with the lack of segregation of duties.

We encourage the Association to segregate its accounting functions to the greatest extent possible and financially feasible.

### Significant deficiencies

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 deficiency in the Association's internal control to be a significant deficiency:

- Controls over General Fund Revenue

It was noted that the FRA does not complete a reconciliation of total cash received from fundraising activities related to T-shirt and hats sales. It was noted that the FRA tracks individual member sales but doesn't reconcile the amount purchased during the year with the amount sold during the year, and how much was in beginning balance for shirts and other clothing. This could result in fundraising sales being unrecorded or missed, or clothing inventory being misplaced or lost. We recommend that the FRA creates a reconciliation for all fundraising sales revenue by tracking how many clothing items are in stock at the beginning of the year, how many are purchased during the year from the vendor and how many are sold, then come up with an ending balance of T-Shirts at year-end. Additionally, the reconciliation should be signed off by the preparer and the reviewer.

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This communication is intended solely for the information and use of management, the board of trustees, others within the Association, and the Office of the State Auditor of Minnesota, and is not intended to be, and should not be, used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
May 16, 2019