



Board of Directors and Management
Lake Region Arts Council
Fergus Falls, Minnesota

In planning and performing our audit of the financial statements of Lake Region Arts Council (the Organization) 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 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 opinion 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. 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.

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 weakness

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. 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.

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.

- Audit adjustments: During the performance of our audit engagement procedures, we proposed and posted adjustments to various account balances. These adjustments were a necessary step in ensuring that the financial statements were fairly stated. The amounts were, in our judgment, material to the financial statements and therefore, we concluded that a material weakness existed in the Organization's control policies and procedures related to recording such adjustments which is required to be reported under professional standards. Management has reviewed and approved the audit adjustments.

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.

- The Organization does not currently have a policy for capitalization of fixed assets. We recommend establishing a policy for fixed asset capitalization. This would include a threshold for when equipment and similar purchases should be reviewed for potential capitalization. Noted that management is looking to implement such a policy in fiscal year 2022.
- During our review of credit card transactions, we noted that there was one credit card transaction that did not have support such as a receipt or invoice. We recommend that every credit card transaction have a receipt or invoice that is retained.
- When reviewing the bank reconciliation, we noticed that there were checks that were written out multiple years ago. These checks should be reviewed to ensure they will be cashed otherwise they should be voided and reissued or turned over to the state in accordance with unclaimed property rules.
- Following CLA receiving last fiscal year's trial balance, entries were made to a closed period after an audit. We recommend that management provides us with a fully complete trial balance and does not make any entries to the final trial balance after the audit is complete.
- Certain transfers related to grants were originally netted within grant expense, leading to grant expenses being understated. We would recommend that management ensure these types of transfers are recorded in a separate account so that expenses can be properly stated.

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, the 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

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St. Cloud, Minnesota
October 19, 2021