



CPAs & BUSINESS ADVISORS

To the Governing Board
Clay County Joint Powers Collaborative
Moorhead, Minnesota

We have audited the financial statements of **Clay County Joint Powers Collaborative** for the years ended December 31, 2004 and 2003, and have issued our report thereon dated June 9, 2005. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, 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.

REVIEW OF INTERNAL CONTROL

As part of our audit, we considered the internal control of the Collaborative. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the Collaborative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determinations of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Collaborative's compliance with those requirements.

Segregation of Duties-The Collaborative has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of lack of segregation of duties.

A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal accounting control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the Collaborative.

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for 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 Collaborative are described in Note 1 to the financial statements. The Collaborative implemented new accounting standards during 2003, specifically GASB Statement No. 34. The new standards required the implementation of new accounting policies, all of which are disclosed in Note 1 to the financial statements. We noted no transactions entered into by the Collaborative 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

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.

AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Collaborative's financial reporting process (that is, cause future financial statements to be materially misstated). It appears from the large number of year-end adjustments that the Collaborative's interim financial statements did not include all the necessary adjustment to provide financial statements comparable to the audited financial statements. This could result in conflicting information for management and outside users. We recommend that the Collaborative review the content of the audit adjustments made to the year-end statements and incorporate many of them into the monthly closing process.

DISAGREEMENTS WITH MANAGEMENT

For 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.

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 Collaborative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

OTHER MATTERS

Checking Account Reconciliations

During 2003, Clay County Joint Powers Collaborative had four checking accounts used to provide four separate services. During 2004 three of these accounts were closed, with only the Reentry Services account remaining open. These accounts are not reconciled monthly to the general ledger balance. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. We recommend that all bank accounts be reconciled on a monthly basis as of the date of the bank statement.

Investigate Differences between the Bank Statement Balance and the General Ledger

We noted that in the bank reconciliations at the end of each year, there is a small difference between the bank balance and the general ledger. It is important for the control over cash that this account is reconciled to the penny. Unreconciled differences that appear immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. Also, if small differences are not reconciled on a monthly basis, over time, they can build up to a significant amount that will be difficult to reconcile. In preparing the bank reconciliations, all items should be investigated and corrected in that period.

Improve Monthly Closing Procedures

During the audit, we recommended eight adjusting journal entries for 2004 and eight adjusting journal entries for 2003. The effect of such entries was to increase (decrease) net income \$(56,759) and \$336,557 in 2004 and 2003, respectively. Substantially all of the entries were to correct bookkeeping errors or to make accruals and other adjustments that should have been made by the accounting department. We believe that a review and evaluation of transactions and proper monthly closing procedures would expedite the year-end closing and reduce audit time and fees.

Included in the liabilities is deferred revenue of \$1,263,219 and \$1,129,724 at December 31, 2004 and 2003, respectively. Money is received from the state to be used for Local Collaborative Time Study and is not recognized as revenue until expended. This account is a significant portion of the total liabilities and should be reconciled on a monthly basis to accurately reflect the financial position of the Clay County Joint Powers Collaborative. We noted no adjustments to this account during the two-year audit period.

Improve Financial Records

We believe that the Clay County Joint Powers Collaborative's financial records are not adequately detailed. During 2004 and 2003, the four checking accounts received periodic payments from the cash on deposit with Clay County to replenish the balances. These payments amounted to approximately \$5,300 and \$22,400 during the years ended December 31, 2004 and 2003, respectively. These payments are classified as miscellaneous expenditures in the general ledger detail at the time of payment. The subsequent transactions in the four checking accounts are not accounted for in detail anywhere in the accounting records. Such a system does not permit the preparation of accurate and reliable financial statements. The importance of a good accounting system cannot be overemphasized. Without adequate financial records, management is basing its decision on incomplete and/or inaccurate information during the year, and excessive time is spent at year end in preparing and auditing the financial statements.

This report is intended solely for the information and use of the Governing Board and management of Clay County Joint Powers Collaborative and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation we received during the course of the audit. We look forward to many years of continued service to Clay County Joint Powers Collaborative.

A handwritten signature in black ink that reads "Eric Bailey LCP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
June 9, 2005