



Board of Supervisors
and Management of Town of Sylvan
Pillager, Minnesota

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Town of Sylvan (the Town) as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material weaknesses

We consider the following deficiencies in the Town's internal control to be material weaknesses:

- Limited Segregation of Duties

The Town Clerk/Treasurer has the primary responsibility for virtually all of the accounting and financial duties. As a result, many of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, not available in this staffing scenario. The design of the internal controls over financial reporting could affect the ability of the Town to record, process, summarize, and report financial data consistently with the assertions of management in the financial statements. We recognize that the Town's cost/benefit analysis has concluded the employment of additional persons for the purpose of segregating duties is not practicable from a financial standpoint, but we are required, under our professional responsibilities, to call the situation to your attention. The Town should utilize the Board of Supervisors' oversight of the budgeting, cash reconciling, receipts and disbursements process to the maximum extent possible to mitigate the absence of segregation of duties.

- **Material Audit Adjustments**

As part of the audit, we proposed entries to adjust the cash basis records to an accrual basis of accounting. These entries relate to internal controls over the year-end close-out process. The absence of a complete control procedure or process in this area is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the Town's internal control processes. We acknowledge the Town's general ledger does not have the capacity to record year-end accrual entries. Therefore, we recommend that Town management continues to review and approve the adjusting entries proposed.

- **Internal Control Over the Financial Reporting Process**

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

The Town engages CLA to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the Town's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the Town 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 Town's activities and operations.

The Town's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the Town'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.

Significant deficiency

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 Town's internal control to be a significant deficiency:

- **Approved Budget Differences**

Management is responsible for ensuring the board approved budget ties to the budget imported into the general ledger system, CTAS, each year. During 2022, the budget in CTAS did not match the board approved budget amounts when originally imported. The design of internal controls over the budget process limits the ability of the Town to provide accurate financial information for financial reporting purposes.

The identified significant deficiency is not considered to be material weakness.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Brainerd, Minnesota
March 8, 2023