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To the Board of Directors
The Pueblo Conservancy District
Pueblo, Colorado

In planning and performing our audit of the general purpose financial statements of The Pueblo Conservancy District (the District) for the year ended December 31, 1997, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgement, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

GENERAL LEDGER MAINTENANCE

We noted that the general ledger maintained by the District was not entirely complete. Certain transactions affecting the operating checking account, while recorded in the cash receipts or cash disbursement journal, were not posted to the general ledger. In addition, investment account activity was not always recorded in the general ledger.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the aforementioned condition is a material weakness.

OTHER ISSUE

In the last state legislative session, the state legislature passed a bill (HB 98-1020) which changed the local government audit law filing thresholds for exemption from audit. The change essentially allows governmental entities with revenues of less than \$300,000 to file an application for exemption from audit. The application for exemption must be completed by a person skilled in governmental accounting or, if revenues exceed \$100,000, the application must be completed by an independent accountant who has knowledge of governmental accounting.

In light of the reportable condition noted above and the change in the audit law filing thresholds for exemption from audit which applies to the District, it is our suggestion that the District consider outsourcing their record-keeping function to an independent CPA firm knowledgeable in governmental accounting. This would solve the general ledger maintenance problem, it would provide monthly financial statements to the board, and it would make available to the District a knowledgeable firm to prepare the application for exemption. The District administrator could also avail himself of the firm's expertise in budgeting and other matters.

While we are not sure what the District Court's response to this suggestion would be, it is our belief that our recommendation should be considered and investigated.

This report is intended solely for the information and use of Board of Directors, management, and others within the organization.

McPherson, Brayfogge, Licklyter & Davis PC

July 16, 1998