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To the Board of Directors
Papio-Missouri River Natural Resources District
Omaha, Nebraska

In planning and performing our audit of the financial statements of Papio-Missouri River Natural Resources District (the District) for the year ended June 30, 2008, we considered its system of internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the system of internal control.

During the audit, we noted certain matters involving the internal control system and its operation that we consider to be control deficiencies under standards established by the American Institute of Certified Public Accountants. A control deficiency 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 misstatements on a timely basis.

Control deficiencies involve matters coming to our attention relating to deficiencies in the design or operation of the internal control system that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

We consider one of the control deficiencies to be a significant deficiency. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's system of internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's system of internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the system of internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described below are material weaknesses.

We believe Papio-Missouri River Natural Resources District should address the following control deficiencies to continue to improve the overall system of internal control:

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Significant Deficiency

Segregation of Duties

Due to the limited number of accounting staff, the District has a lack of segregation of duties within the accounting department. A good system of internal accounting control includes segregation of duties so that no one person handles a transaction from inception to completion. Segregation problems occur in almost all small and medium sized organizations, and it is often not economically feasible to permit an adequate segregation of duties in all respects. The District's management should be diligent in providing additional separation of responsibilities where possible.

Control Deficiency

Tracking of Federal Expenditures

The District does not have a formal system in place to track federal expenditures or reimbursements, and there is little communication between the accounting department and project managers regarding federal funding. Every year, difficulties are encountered when determining actual federal expenditures. This control deficiency could impact OMB Circular A-133 Compliance, the District's Schedule of Expenditures of Federal Awards, and the information contained on the Data Collection Form. We strongly recommend implementation of a grant monitoring process necessitating stronger cooperation and communication between the accounting department and project managers.

During our audit, we noted certain other matters involving the internal control system that are presented for your consideration. These matters do not affect our report dated December 8, 2008 on the financial statements of the District. We will review these comments during our next audit engagement. Our comments and recommendations are intended to improve the system of internal control. Our comments are summarized as follows:

General Comments and Suggestions

Disbursements

During testing of disbursement transactions, we noted one of the manual checks had been misplaced. The District should rarely, if ever, issue manual checks and we strongly discourage the use of manual checks. Should a situation arise whereby a manual check is required, we recommend management closely review the transaction giving rise to the need prior to releasing a manual check. Should such situation require a manual check, we recommend management track the check closely, verifying the check is processed timely and accurately.

We also noted that supporting documentation for selected Dakota County Rural Water Project cash disbursements were misplaced. This documentation is an important part of the system of internal control. We strongly recommend that the District strengthen controls in this area to ensure the availability of supporting documentation for any Dakota County disbursements.

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Capitalization Policy

During the audit, we noted several instances whereby capital expenditures significantly less than the District's capitalization threshold (\$5,000) had been capitalized during the year. We recommend the District adhere to its written policy related to capitalization of fixed asset acquisitions.

The District has made strides in addressing the forgoing subsequent to year-end. We have discussed these comments and suggestions with the District personnel and would be pleased to discuss them in greater detail at your convenience.

This letter is solely for the information and use of the Board of Directors and management of Papio-Missouri River Natural Resources District and should not be used for any other purposes.

Omaha, Nebraska
December 8, 2008

Blund & Associates, P.C.