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To the Board of County Commissioners Routt County, Colorado

We have audited the financial statements of Routt County, Colorado (the "County") as of and for the year ended December 31, 2018. Professional standards require that we provide you with the following information related to our audit.

Qualitative Aspects of Accounting Policies

The County's management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the audited 2018 Financial and Compliance Report. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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. The most sensitive estimates affecting the financial statements are:

- Estimating allowances for uncollectible receivables, based on management's experience with customers and other business partners, together with actual collections history since year-end.
- Estimating useful lives of fixed assets, in connection with the calculation of depreciation, based on industry standards and perceived use of asset categories.
- Estimating the incurred but not reported liability, based on claims activity.

We evaluated the key factors and assumptions used to develop these estimates and found them to be reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. With the exception of certain uncorrected financial statement misstatements (as detailed in a schedule attached to the management representation letter) whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit, management has corrected all such misstatements prior to finalization of the 2018 audited financial statements.

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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

Management Representations

As is required in all audit engagements, we have requested certain representations from management that were included in the management representation letter.

New Financial Reporting Standards

Financial reporting standards for the County are promulgated by the Governmental Accounting Standards Board ("GASB"). During 2017, GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84") and Statement No. 87, *Leases* ("GASB 87").

GASB 84 changes the reporting of fiduciary activities by governments, by requiring that agency funds be presented as custodial funds and mandating the inclusion of a statement of changes in fiduciary net position in the financial statements. GASB 84 will be effective for the County's 2019 fiscal year.

GASB 87 will require that governments report certain lease assets and liabilities for leases that previously were classified as operating leases, and recognize inflows or outflows of resources based on the payment provisions of each such contract. The provisions of GASB 87 impact lease accounting by both lessors and lessees. The County will be required to implement GASB 87 for the 2020 fiscal year.

We will work with County staff to assist with the necessary calculations and presentation considerations in advance of the implementation dates of these standards.

Changes to the Uniform Guidance

The U.S. Office of Management and Budget's (the "OMB") *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (commonly called the "Uniform Guidance") has made changes to the required framework for grants management. The Uniform Guidance is an authoritative set of rules and requirements for Federal awards that applies to all organizations that receive Federal awards. These requirements could necessitate the County modifying some of its governing and operating policies to incorporate the following compliance documentation:

- Allowable Costs – Policies and procedures will generally require timesheets or time and effort logs to track salary costs charged to grants. The policy will also require that the County maintain documentation supporting the allocation of indirect costs or election of the de minimis cost rate.
- Cash Management – Documented procedures should specify that only minimal time is to occur between grant receipts and grant expenditures.
- Reporting – Procedures must be defined, in order to ensure proper preparation of federal reports.
- Eligibility – Procedures must be detailed to verify eligibility is properly determined for grant expenditures.
- Procurement – There are significant new requirements for organizational procurement policies. Policies should include guidance on procurement of goods and services that are funded by grant awards. Policies must specify that the organization will utilize an authorized procurement method, as defined in the Uniform Guidance, and include written standards of conduct, and contractor oversight.
- Sub-recipient Monitoring – Policies for sub-recipient monitoring can require on-site visits, limited scope audits, and a review of internal controls to provide reasonable assurance over funds being disbursed to sub-recipients.

Changes to the Uniform Guidance (continued)

Policy and procedure changes are required to be documented by the calendar year ending December 31, 2019. Additional information can be obtained at <https://www.gpo.gov/fdsys/pkg/CFR-2017-title2-vol1/pdf/CFR-2017-title2-vol1-part200.pdf>

Recommendations

In planning and performing our audit of the County's financial statements as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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. During our audit, we became aware of the following opportunities for strengthening the County's internal controls and business practices. Summarized below are our comments and suggestions regarding those matters, followed (*in italics*) by a written response from County management. These responses have not been subjected to the auditing procedures applied in our audit of the County's financial statements and, accordingly, we do not express an opinion or provide any assurance on management's responses

Continued from December 31, 2016 audit:

General Cash Receipting Controls

To reduce the risk of misappropriation of cash payments, every location where cash is accepted should install a sign stating that a receipt must be given for every transaction. In departments where a receipt can be printed from the department's revenue tracking software, we recommend that all manual receipt books be removed to ensure that all receipts are entered into the software at the time payment is received. If manual receipts are required due to limitations on the revenue tracking system, the receipts should be pre-numbered, and the receipts should be reconciled to the deposit to ensure all customer payments are accounted for and deposited sequentially.

Management's Response:

Departments have received direction from Accounting to post a sign that reads "Receipt available upon request". Department personnel processing receipts have been trained how to use Munis in order to produce a receipt for each transaction at the time of the transaction.

Sheriff's Office Reconciliation of Cash Receipts

Although all paid citations are marked as such in the *Spillman* software, there is no report available from this software to show all payments received within a specific date range. The County should work with the Information Systems department to build a report that can extract payment information from the *Spillman* software. If a report is available detailing payments receipted in the *Spillman* software by date, this would be useful in the daily reconciliation to ensure all law enforcement receipts are included in the Treasurer deposit. The key pieces of information that would be beneficial to financial reporting are Citation Number, Payee, Date Paid, Tender Type and Amount Paid. However, the Sherriff's Office would also benefit from a report that tracks citations transferred to the court or citations that should be transferred to the court (based on days outstanding).

Recommendations (continued)

Continued from December 31, 2016 audit (continued):

Sheriff's Office Reconciliation of Cash Receipts (continued)

Management's Response:

The Records Technician completing the deposits is double checking to ensure that receipts are accounted for in numerical order and that checks are logged and accounted for. It would be too labor-intensive, based on our staffing levels, for two people to complete this task on a regular basis. If an issue arises, all documentation is available for review and accountability. As stated to the auditors, not all tickets issued are paid through this office. We have no way of tracking tickets that are paid to the court or Department of Motor Vehicles (DMV). If the ticket goes to the court or DMV and is not paid, a hold is placed on the driver's license and it could be years before it is resolved. If a ticket is paid to this office, the payment is already tracked through one of the above processes. We already have a system for tracking when tickets need to go to the court. It is not as automated as the auditors might like it to be, but given that we are most likely moving to an e-citation system within the next year or so, it seems fruitless to spend resources to develop a report based on our current method of doing business.

Treasurer Bank Reconciliations

In our letter to the Board issued following our 2016 audit, we observed significant delays in completing Treasurer bank account reconciliations and in resolving variances within year-end bank reconciliations. In our 2017 audit, the Treasurer's bank accounts were again not reconciled until significantly after year-end, and required the assistance of the Finance department to complete. During the 2018 audit, it was again noted that bank reconciliations were not timely completed. In order to ensure the accuracy and validity of the Treasurer's Ledger, as well as the County's financial records, it is imperative that bank reconciliations be timely prepared and reviewed by the Treasurer. Further, risk of loss related to cash handling can be reduced if a proper system of checks and balances is incorporated into the Treasurer's month-end reporting procedures, including the reconciliation of bank accounts. All reconciling items should be promptly reviewed for reasonableness and to ensure that such items are subsequently cleared.

Management's Response:

The Treasurer's Office has made bank reconciliations a priority. We plan to be up to date on 2019 bank reconciliations by the end of the July. Going forward, the goal will be to have prior month's bank reconciled within 60 days and months closed within 90 days.

County Fair Reconciliation of Cash Receipts to Wrist Bands Sold

The County's annual fair generates revenue from the sale of wrist bands that allow customers access to the events. We recommend that an employee without access to cash maintain security over the wrist bands. This employee would distribute a specified number of wrist bands to each employee at sales locations and would then reconcile the deposit to the number of wrist bands not returned. By performing this reconciliation, misappropriation of revenue and/or wrist bands would be timely identified. Given the varying fees, a proper reconciliation would require a different type of wrist band for each different fee or price option.

Recommendations (continued)

Continued from December 31, 2016 audit (continued):

County Fair Reconciliation of Cash Receipts to Wrist Bands Sold (continued)

Management's Response:

Adding yet another layer of colored wrist bands makes it difficult to track overselling of seats, and makes it even more complicated for our volunteers to track which colored wrist bands are accepted when and at what entrance (Grandstands? Pit area? VIP area? Youth? Adult? Which event? Comp?). Comp tickets are being tracked more effectively due to a new policy created last year by the Fair Advisory Board in the middle of the 2018 Fair regarding Comp tickets. This policy will be in full implementation for the 2019 Fair and sets a specific number of tickets that will be comp by person (i.e. Fair Board Members or sponsors). Also, starting in 2019, all ticket sales will be tracked via the Fair's online ticketing system. Guest purchase tickets online and receive a QR code (a bar code basically) on a voucher. The guest brings the voucher (or can show us their QR code on their phone) to the fair office and via a QR code reader the voucher is scanned and wrist bands are distributed. Once a QR code has been redeemed, it cannot be used again. All transactions are recorded and reported via our website company. While the online ticketing system does not reconcile the physical wrist bands distributed to the tickets paid transaction reports, it does reduce the need for simultaneous payment processing and wrist band distribution, which could mitigate errors in collecting the proper amounts, providing proper change and reduce the number of persons distributing wrist bands so more careful attention can be placed on the distribution of wristbands only to guests who have paid, etc. In regards to reconciling wrist bands to ticket transaction reports, we don't have sufficient staffing to make this happen.

County Fair Segregation of Duties for Cash Receipting

Our audit work with respect to the Fairgrounds facility rentals operations revealed a lack of segregation of duties between the duties of scheduling/contracting a facility rental and the receipt of payment for the rental. These are incompatible duties that should be separated because they create the opportunity for receipting the rental payment from the customer, reserving the space on the calendar, but never depositing the cash with the Treasurer. We recommend that the person who is charged with maintaining the calendar (database of all facility reservations) is separate from the person receipting payment.

Management's Response:

The Fairgrounds has one person who does everything. This is not optimal per our auditors. However, it can only be solved by adding personnel to the Fairgrounds staff. Removing Jill's ability to manipulate the calendar would create issues with reservations and very poor customer service. And again, it would require adding personnel to the Fairgrounds who also have a detailed knowledge of the facilities, processes, etc. It's just not feasible without additional personnel. We are currently working on a point of sale system that would include facility reservations, but would not solve the requested action of separate people maintaining the calendar and receipting payments.

Continued from December 31, 2017 audit:

Clerk and Recorder Delete/Void and Refund Reports

While performing interim fieldwork in the Clerk's office, we observed that there was no documented review of variance, waived fees or void reports. The monthly review process – which ensures there are valid reasons for all variances, waived fees and voids – should be documented by the reviewer signing and dating the reports.

Recommendations (continued)

Continued from December 31, 2017 audit (continued):

Clerk and Recorder Delete/Void and Refund Reports (continued)

Management's Response:

The Motor Vehicle Department is now printing all three reports on the first business day of the month and getting the Clerk to sign and date them. They will be kept in a file in the MV Department.

Road & Bridge and Planning Departments

In the course of our 2017 and 2018 audits, we observed that, while both departments process permits with *ViewPoint* permitting software, an Excel spreadsheet is used to support deposits. To ensure data integrity and duplication, the "*ViewPermit Cash Report*" should be printed from *ViewPoint* for the dates covered by the deposit and added to the documentation supporting the deposit. A reviewer without access to the physical deposit needs to pay particular attention that the ending date and time of the prior deposit agrees to beginning date and time of the next deposit.

Management's Response:

Currently the Public Works (PW) Department uses ViewPermit for payments on certain permits that are tied to a parcel (i.e., grading and excavation, driveway, utility and right of way permits). ViewPermit does not handle services that are paid to Public Works (i.e., MagChloride applications, over size and overweight permits). PW will take steps to create accounts receivable invoices in Munis as soon as PW is invoiced for services that need to be billed to a customer. PW will also take steps to make sure that the person who collects payments is different than the person who originated the invoice. The PW Admin will obtain access to ViewPermit and mark PW permits processed in this software as paid upon collection.

The Planning Department Admin knows how to run the ViewPoint cash report and is running the report for each deposit. At the end of each month, the monthly ViewPoint cash report is reconciled to the Munis deposit report. The monthly reports are reviewed and signed by a supervisor. Copies of the monthly reports are filed in the Planning office.

Assessor

Each month, the Assessor runs a report of all deactivated accounts which indicates the deactivation date and reasons for the deactivation. The Treasurer also receives a notification each time an account is deactivated. While the Assessor's procedures include a monthly review of these reports for reasonableness, we were unable to verify that this review / approval process has taken place. We therefore recommend the reviewer sign and date this monthly report to evidence review of the report.

Management's Response:

The Deputy Assessor worked with Tyler Eagle to change the permissions in the software in order to limit the number of persons who can deactivate accounts to four. The department plans to run a report of all deactivated accounts each month. Each month, this report is distributed to and reviewed by the four persons who are authorized to deactivate accounts. Each reviewer enters a key code in the report that describes the reason for deactivation of the account. As needed, the reviewer may explain further the reason for the deactivation in a comments section of the report. The Deputy Assessor verifies completion of review and spot checks the accounts in Tyler to verify the key code description for the deactivation matches the reason in Tyler for the deactivation. The Deputy Assessor signs report. Reports are kept on file in the Assessor's office.

Recommendations (continued)

Continued from December 31, 2017 audit (continued):

Payroll

Employees processing payroll also have the ability to change pay rates and other personnel information, which exposes the County to the risk of pay rates being adjusted without proper approvals. Ideally, the payroll processing function would be separated from the pay rate modification role, but this risk is currently mitigated (after the fact) by having a person outside of the payroll process review a system report that shows all changes made. To verify that this review process is being performed, the reviewer should always sign and date the reviewed documents as evidence of this internal control.

Management's Response:

Payroll employees will produce a Clerk Audit Report from Munis payroll after each payroll is completed. This report lists all employees with manual adjustments made by Payroll Admin personnel after time entry records have been imported into Munis. Manual adjustments to payroll are needed for reasons such as moving pay amounts from an incorrect to proper pay code; DHS and YVRA exempt employees often have over 80 hours entered and their salary amount needs to be changed to the proper period salary to avoid overpayment; time allocations for salaried employees at YVRA need to be changed from their home department if an employee worked in more than one YVRA department; and departing employee pay amounts are changed according to their payout plans. Finally, for the 3-week regular payroll and 4-week RSCO payroll cycles, total hours for all salaried employees need to be adjusted because the imported hours from time entry are inflated for the additional week(s) in the payroll cycle. The Clerk Audit Report from Munis payroll will be reviewed by either an Accounting Manager or the Finance Director, signed by the reviewer, and filed with the payroll documentation for each payroll.

From December 31, 2018 audit:

Assessor

During the 2018 audit, it was noted that the Deputy Assessor is the only person that can post in *Munis*, has access to and prepares the deposit, and makes the deposit with the Treasurer. A tracking sheet is maintained in a locked cabinet, for which only the two administrative employees have access. When it is time to make the deposit, one of the administrative employees counts the cash and checks, agrees it to the tracking sheet in the file cabinet, and prints it off to give to the Deputy Assessor. We recommend that the administrative employee counting the cash and checks sign each Excel support sheet, so that it cannot be altered. This report should also be provided (and retained) as a supporting document for the deposit.

Management's Response:

The administrative employee who counts the cash and checks with the Deputy Assessor and the Deputy Assessor both sign the Excel deposit spreadsheet. The signed Excel deposit spreadsheet is included in the Munis deposit record. After the deposit is made with the Treasurer, the Deputy Assessor also scans and saves the Munis deposit receipt signed by the Treasurer and the signed Excel deposit spreadsheet in the Assessor's location on the County network.

Public Trustee

In the course of our 2018 audit, we noted that although the Public Trustee utilizes GLS software to record all foreclosure activity. However, there is no reconciliation between the GLS software and the Treasurer's Ledger. To ensure data is complete, a report should be printed from the GLS software showing all deposits for a certain period, and that report should be reconciled to the Treasurer's Ledger. These reports should be signed and kept as a record of this reconciliation.

Recommendations (continued)

From December 31, 2018 audit (continued):

Public Trustee (continued)

Management's Response:

A new system has been implemented in 2019 to reconcile the GTS transaction report to the Munis ledger on a monthly basis.

Human Resources

Retirement activity for all employees is currently being manually entered and sent to ICMA, the retirement administrator. This manual process has a high risk of potential errors in employee accounts. We recommend the data be exported directly from *Munis* in order to reduce the possibility of inadvertent data entry errors, and to eliminate duplicative manual entry of this information.

Management's Response:

Human Resources is now using a custom report written by the Routt County IT Database Administrator to upload ICMA-RC contributions per employee per payroll directly into employee accounts at ICMA-RC. Employee loan payments are still managed manually using the ICMA-RC website form and this process is not anticipated to change. Manual entry for loans is only necessary for new, closed, or for extra loan payment amounts. Otherwise, employee loan payment amounts populated by ICMA-RC are left unchanged from the prior payroll and no data entry is necessary. Total contributions and total loan payments being uploaded/entered into ICMA-RC are tied to the respective Start and Status report from Munis Payroll before they are finalized.

Human Resources / IT / Accounting

Currently, software permissions are set up by accounting for each "role" and HR assigns a role to each new employee. There is no review of permissions assigned to each employee to ensure the assigned role is correct and that there are no segregation of duties issues. We recommend a process for onboarding all new employees and review of permissions assigned to each employee is implemented.

Management's Response:

The Information Technology (IT), Human Resources (HR), and Accounting departments are all stakeholders in Munis user roles and permissions management. The Accounting department has transitioned Munis user role maintenance to the IT department's ERP Applications Analyst (Analyst), which is a new position in 2019. The Analyst is currently going through all Munis users and reviewing and updating roles and permissions. The HR department has also begun reviewing Munis user roles and permissions in preparation of adding the Munis Human Capital Management module, which requires making sure there is no personally identifiable information (PII) and/or protected health information (PHI) available to users outside of the HR department. Moving forward, the IT, HR and Accounting Department Managers plan to update and formalize Munis user roles and permissions management, update employee onboarding procedures and add a review of the user roles and permissions before they are assigned.

Road & Bridge

It was noted that the Road & Bridge department is not currently utilizing inventory software to record and track inventory. Effective controls to safeguard inventory can be extremely important to ensure there is no misappropriation of County assets. We recommend the County look into utilizing an inventory system to track all parts as well as implement periodic inventory counts to ensure accurate reporting of inventory.

Recommendations (continued)

From December 31, 2018 audit (continued):

Road & Bridge (continued)

Management's Response:

Public Works, with assistance from Accounting, is looking at implementing a module in Munis to track inventories in the future. The other option is to hire a full-time fleet manager to track supplies and parts after a cost/benefit analysis is performed to justify an additional employee. Currently, Road and Bridge purchases parts on an as needed basis and keeps a relatively small stock of parts in the shop of common items necessary for routine repairs.

Payroll

During our testing, we noted there is currently a "test user" login that can mimic any user on *Munis*. Although the login is only used by certain personnel in rare occasions, this login is a risk since there is no audit trail to show the "test user" activity. We recommend this user login is eliminated as it poses a risk of unapproved activity by anyone with access to the "test user" login that cannot be tracked with an audit trail.

Management's Response:

Payroll personnel use the "test user" login as a review tool only to troubleshoot time entry and approval issues encountered by Munis users before time entry is imported into the Munis payroll module for processing. Only payroll personnel (2 employees) have passwords to access and use this tool. Without this tool, up to 6 reports need to be generated in order to identify an issue on an employee's time entry. It is an ideal tool to be able to see what an employee has entered and what the supervisor may or may not be able to see. Once an error or omission has been identified, the entry is released back to the supervisor. The supervisor can then reject the entry back to the employee for correction or make the edit. If the supervisor is not available, the workflow can go to the backup supervisor. To mitigate the risk of payroll personnel changing time entry data in order to personally benefit, an Accounting Manager or the Finance Director can review either on a random or each payroll basis the detail check history report for the 2 employees who have access to the test user login. The review of the detail check history reports can be evidenced by the signature of the reviewer and filed with the payroll documentation for each payroll. The Accounting department also plans to consult with the IT department's Database Administrator to determine whether a custom report can be generated by employee for a certain payroll which shows the information needed to assist Munis users with time entry and approval.

This report is intended solely for the information and use of the Routt County Board of County Commissioners, its management, and others within the County and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,



McMahan and Associates, L.L.C.
August 22, 2019