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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, 2021. 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 County's audited 2021 *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 by the governmental unit 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 capital 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 for the partially self-funded health insurance pool, based on subsequent 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. Management has corrected all misstatements prior to finalization of the 2021 audited financial statements.

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*Corrected and Uncorrected Misstatements (continued)*

The beginning net position for 2021 of the Insurance Pool was reduced by \$380,735 and the beginning aggregate fund balance / net position of other funds were correspondingly increased to reflect a change in the County's accounting for insurer services and claims. The County changed the classification of digitally-archived documents from a depreciable asset to a non-depreciable asset as of January 1, 2021, resulting in a \$237,922 increase in beginning net position for the Equipment Pool and beginning government-wide net position for governmental activities.

*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 Standard*

Financial reporting standards for the County are promulgated by the Governmental Accounting Standards Board ("GASB"). During 2017, GASB issued Statement No. 87, *Leases* ("GASB 87"), which 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. As subsequently amended, GASB 87 is effective for reporting periods beginning after June 15, 2021, so the County's 2022 fiscal year reporting must reflect the changes imposed by this new standard.

We will work with County staff to support implementation of this new standard, and to assist with the related calculations and presentation considerations for fiscal year 2022 financial statement reporting.

*Recommendations*

In planning and performing our audit of the County's financial statements as of and for the year ended December 31, 2021, 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 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.

*Recommendations (continued)*

**Continued from December 31, 2016 audit:**

***Sheriff's Office Reconciliation of Cash Receipts***

Sheriff administration staff is currently entering all tickets into the *Spillman* software, receiving payments, and making deposits. This represents a lack of segregation of duties and creates a risk for misappropriation of receipts. We recommend that these duties be segregated in order to accomplish better internal controls. Additionally, 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 may want to consider implementing a system to keep track of all tickets. This would include ensuring all tickets are accounted for, as well as ensuring unpaid tickets go to court. All other tickets should have proper support for either payment or void. The County should also consider an electronic ticketing system, which would provide better reporting and tracking of all citations.

**Management's Response:**

*The Sheriff has found a software that he believes will work well with Spillman called DigiTICKET. The Sheriff has talked to other counties using DigiTICKET and is very positive about this software and that it will effectively track tickets. He is requesting the DigiTICKET software in the 2023 Sheriff budget. In the meantime, personnel in the Sheriff's department have coordinated with the Spillman representative and produced a Spillman report that shows tickets issued in numerical order and includes a new field which gives the status/disposition of the ticket and the paid status and whether it was sent to the state or the courts.*

**Continued from December 31, 2018 audit:**

***Road and Bridge Inventory***

It was noted that the Road and 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.

**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.*

**Continued from December 31, 2020 audit:**

***Sheriff Cash Receipts***

Greater segregation of duties could be achieved within the Sheriff's office if individual cash drawers were assigned to each cashier, in lieu of a single cash drawer used by all employees. Having each technician be responsible for only their respective cash handlings ensures that all cash receipts are recorded intact and complete, and that cash receipts cannot be misappropriated by another employee. Currently, if misappropriation of cash receipts were to occur, it would not be possible to identify which employee is responsible. An alternative would be that only a specific employee operates a drawer that would accept cash transactions and that drawer is not shared with any other employee.

*Recommendations (continued)*

**Continued from December 31, 2020 audit:**

***Sheriff Cash Receipts (continued)***

*Management's Response:*

*Beginning in 2022, there is one staff member designated to balance the cash drawer. This person will not participate taking cash receipts. Mitigating factors such as video surveillance and the sign informing customers that receipts are available, are still in place.*

**From December 31, 2021 audit:**

***Segregation of Duties – Planning***

During our visit to the Planning department, we noted a lack of segregation of duties in the cash receipting process. The employee recording receipts into *CityView*, the planning software, is also reconciling *CityView* reports to *Munis*. These are incompatible duties that should be separated in order for a separate individual to be able to ensure that the *CityView* revenues match what was deposited and recorded in *Munis*.

*Management's Response:*

*Given the current staffing level in the Planning Department, segregation of duties is not feasible as recommended. As a mitigating control, the Planning Department employee who is collecting receipts, entering the receipts into *Munis*, and preparing the deposit will have another employee in the office review the *CityView* revenue report, *Munis* data entry and deposit. The reviewing employee will document the review by signing and dating the *CityView* revenue report prior to taking the deposit to the Treasurer, which will be scanned and filed by date.*

***Reconciliation of Fair Ticket Sales***

Due to staff turnover in the fair department, there was no reconciliation performed for the 2021 fair ticket sales. Reconciliation of ticket sales to deposits is an important procedure in order to ensure the County received all earned revenues. We recommend the County ensure all future revenues are reconciled in a timely manner.

*Management's Response:*

*In 2022, the Fair Department implemented a new point of sale software. The applicable revenue report from the point of sale software will be reconciled to *Munis* and to the bank deposit.*

***Separation Checklist***

A separation checklist is a valuable tool used to ensure all proper steps are taken to remove employee access to facilities, software logins, and any County assets in the employee's possession upon termination of employment. During our audit, it was noted not all steps are clearly outlined in the checklist. In order to improve the checklist and make sure no steps are missed, we recommend the County revise the checklist to include all procedures related to electronics and p-card steps between all departments.

*Recommendations (continued)*

**From December 31, 2021 audit:**

***Separation Checklist (continued)***

*Management's Response:*

*Human Resources has updated the employee separation process and termination checklist to include an additional crosscheck and specific line item on the checklist for the collection and disabling of employee P-cards and electronics.*

*Step 1: Request the return of P-card and electronics.*

*Step 2: Notify the Purchasing Department and Information Technology Department of separating employees so they may take the required action to disable the P-card and inventory computers and other electronics, respectively.*

***Cash Receipting and Billings – Environmental Health***

During testing of cash receipts at the environmental health department, it was noted that a manual receipt book was being used but not for every transaction. This results in an incomplete record of receipts and a lack of ability to reconcile receipts to cash receipts to ensure all receipts are accounted for. Receipts are then being entered into the financial software, *Munis*, days later and there is no reconciliation to the manual receipt book. Additionally, water testing bottles billing was invoiced using manual invoices and was not recorded in *Munis*. Paper logs are used for tracking receivables and there is no accounts receivable balance in *Munis* for these billings. We recommend that test bottle invoicing be processed in *Munis* in order to better track receivables, apply payments to appropriate customer billings, research billing disputes, and prevent fraud/errors in billing/receiving. We also recommend that all amounts received be entered into *Munis* upon receipt in order to reduce risk of misappropriation.

*Management's Response:*

*All cash receipts will be entered into Munis at the time of receipt and a receipt will be offered to the customer. The department implemented a credit card payment process in 2022 and will encourage customers to either pay with credit card or pay online. Payments for testing bottles will be recorded at the time of purchase and tracking of the receivable will not be necessary. The County does not feel it would be beneficial to implement an inventory tracking system for these bottles due to the small value of the bottle inventory.*

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.**  
Avon, Colorado  
September 27, 2022