

August 31, 2020

Honorable Mayor and Members of the City Council  
City of Craig, Colorado  
Craig, Colorado

Dear Council Members:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Craig, Colorado (Craig) for the year ended December 31, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letters to you dated October 15, 2019 and July 1, 2020. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. 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 City for which there is a lack of authoritative guidance or consensus. All other significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements 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 were:

- the useful lives used in recognizing depreciation of property (allocating costs of assets to operations over time), and
- the collectability of accounts receivable.

The financial statement disclosures are neutral, consistent, and clear.

##### *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 clearly trivial, and communicate them to the appropriate level of management. We proposed the following entries to the general ledger:

- To adjust equity to its December 31, 2018 balances,
- To record additional intergovernmental and accounts receivable,
- To reverse double posting of compensated absences and accrued payroll,
- To record accounts payable for a construction invoice which spanned fiscal years, and
- To record an interfund borrowing to eliminate a negative cash balance.

### Current Year Comments

#### **Accounting Systems and Policies**

The City has had significant changes in executive management beginning in 2018 and continuing through 2020. The individuals who were replaced had worked for the City for a long period of time and may have had systems in place that worked for their personality and style, but may not be the best internal control systems.

We recommend that the City undertake a comprehensive review of its accounting, payroll/human resources, cash collection and internal control systems.

Included in this review could be the City's policies, procedures, and manuals. For example, we noted that the Personnel Manual is from 2016. New legal and Human Resource staff may be able to provide updates to this manual.

We recommend that the City also undertake a review of its policies, procedures, and manuals.

In 2019, the City received federal grants in the form of Mineral Leasing Act funds. In 2020, the City will expend federal dollars due to CARES ACT funding. The Uniform Guidance requires the City to have written policies and procedures surrounding grant administration. These policies and procedures include:

- ❖ A system that identifies federal awards,
- ❖ Procedures for determining the allowability of costs,
- ❖ A travel policy which includes federal requirements,
- ❖ Payroll procedures for documenting time charged to a grant,
- ❖ A conflict of interest policy that includes both the City Council and City of Craig employees,
- ❖ Procurement policies,
- ❖ Preparation of grant financial and performance reports, and
- ❖ Protection of Personally Identifiable Information (PII)

We recommend the City ensure that it has written policies that conform to the Uniform Guidance.

#### **Procurement of Engineering Services**

As noted above the City received Mineral Leasing Act funds. These funds totaled more than \$880,000. As a result, the City was required to have an audit of its federal funds. One area we examined was procurement. The City uses an engineering firm, Schmueser Gordon Meyer Inc. (SGM), as the City's engineer. One contract totaling more than \$425,000 was entered into with SGM. They City did not bid this work. An oversight grantor may question why this contract was not bid.

We recommend the City contact DOLA to ask them how to document that the use of SGM, due to their relationship with the City, without a bid is appropriate.

### **Billing for School Resource Officer**

The City received \$75,000 for the School Resource Officer (SRO) from the Moffat County School District #1. The amount received was for the 2019 school year in January 2020. The school year does not match up to the City's fiscal year. One way to synchronize fiscal years would be to bill the District twice a year.

We recommend the City determine the best way to bill the District for the SRO reimbursement.

### **Reconciliation of the Payroll Records to the Accounting Records**

One of the audit procedures we perform is to reconcile various payroll reports and spreadsheets to the general ledger accounts. We were not able to reconcile these amounts. The differences were immaterial for audit purposes, but due to the nature of these transactions and the reporting of sums to the federal government it may be that the City's tolerance for a variance is very low.

We recommend that the City reconcile its payroll records to the general ledger on a monthly or quarterly basis.

### **New Accounting Pronouncements**

As we said in last year's letter, the Governmental Accounting Standards Board (GASB) issued Statement No. 84 *Fiduciary Activities*. GASB delayed the implementation of this statement until 2020. In addition to what you would think of as a fiduciary activity, the ICMA pension may be required to report a pension trust fund.

We recommend that the City review Statement No. 84 to determine if the reporting of a pension trust fund is necessary.

### *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 auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated August 31, 2020.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to Management's Discussion and Analysis (the MD&A) and the schedules of revenues, expenditures, and changes in fund balance for major governmental

funds, as compared to the budget, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on combining and individual fund balances, as compared to the budget, and the local highway finance report submitted to the State of Colorado, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

#### *Concluding Comments*

We wish to express our appreciation to Peter Brixius, Bruce Nelson, Katy Burns and the entire staff of City for their full cooperation and assistance during the audit engagement. We appreciate the opportunity to be of service to the City.

This information is intended solely for the use of the City Council and management of the City of Craig, Colorado and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Jason D. Adams, CPA  
The Adams Group, LLC