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To the Board of Education Garfield School District RE-2 Rifle, Colorado

We have audited the financial statements of Garfield School District RE-2 (the "District") for the year ended June 30, 2020. Professional standards require that we provide you with the following information related to our audit.

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the Notes 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 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 were:

- Estimated Net Pension Liability and Pension-Related Deferred Inflows and Outflows: These estimates are based on actuarial calculations and assumptions provided by the Public Employees Retirement Association of Colorado.
- Estimated Net Other Post-Employment Benefit's Deferred Inflows and Outflows: These estimates are based on actuarial calculations and assumptions provided by the Public Employees Retirement Association of Colorado.
- Estimated useful lives for depreciation on fixed assets: Management's estimate is based on industry practice and experience.

We evaluated the key factors and assumptions used to develop these estimates and found them 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. As required by professional standards we have summarized the journal entries by financial statement element that were required subsequent to fieldwork to create accurate financial statements:

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Corrected and Uncorrected Misstatements (continued)

<i>Fund / Audit Area</i>	<i>Direction of Net Change</i>	<i>Cumulative Adjustment Required</i>
General Fund:		
Revenue	Increase	\$296,692
Expense	Increase	\$277,689
Capital Projects Fund		
Accounts payable	Increase	\$8,095
Expense	Increase	\$8,095

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 an audit engagement we have requested certain representations from management that are included in the management representation letter.

Material Weaknesses:

In planning and performing our audit of the District's financial statements as of and for the year ended June 30, in accordance with auditing standards generally accepted in the United States of America, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the District's internal control to be material weaknesses

Reconciliation of District Cash and Investment Accounts

A critical control required to safeguard District assets and ensure accurate financial reporting is the timely and proper reconciliation of cash and investment balances. The transactions occurring in bank and investment accounts must be reconciled against the transactions recorded in the District's financial reporting software. Failure to perform timely and accurate reconciliations creates a significant financial risk to the District. The District's reconciliations were not prepared timely nor accurately for the first several months of fiscal year ended June 30, 2020. The District hired a consultant to assist with the reconciliations and they were completed and accurate as June 30, 2020.

Segregation of Duties

A fundamental part of a good internal control system is that no single individual will have access to both an asset and its related reconciliation. Management interviews indicated that the senior accountant currently has the ability to create purchase orders, vendors and process checks. This ability was first added due to the significant turnover in the finance department and would likely have been required as there were limited staff available to complete multiple tasks. As the District adds staff and becomes more functional this ability should be limited in the security settings of Alio, the District's finance software. Until that time, the District is exposed to the risk of misappropriation of assets through the payment of unauthorized disbursements.

Other Items:

We noted the following areas which are not considered material weaknesses but could improve the District's operational capabilities:

Compensation Time Policy

The District's policy GDBC – *Support Staff Supplementary Pay / Overtime* provides that a non-exempt employee may accrue no more than 40 hours of compensatory time unless the employee's supervisor gives advice that accrual of additional hours is allowed under the law. The superintendent or designee may allow an excess of 40 hours with special approval. The District has 12 employees with 1,276 in compensatory time with an employee with a maximum of 339 hours.

Position Control Budgeting

The District has in the past maintained a budget control by position document that detailed each District position and helped ensure proper coding of employees to the correct Colorado Department of Education (CDE) accounting codes. This document also assisted in identifying vacancy and salary savings by position. The District may want to implement this procedures or something similar to better track budget variance.

Finance Department Training

It is our understanding the District has arranged for periodic training with an outside accountant and Alio. This is critical to ensuring District staff are able to properly prepare reconciliations and monthly closings. We commend the District and recommend a formal training plan be prepared and implemented by finance position.

Fixed Assets

The District should prepare a capital list and provide that list to staff to ensure it still is held, insured and maintained by the District.

Account coding Contracts

CDE requires all Districts to utilize an authorized account structure. Several new account codes were created that should be eliminated. For example, the District has several accounts with a location code of 100. Although location codes with a 1XX represent an elementary school, no such location 100 exists within the District. This may create problems with the district's data upload to CDE. The District should lock new account creation in Alio so they can only be created by someone familiar with the CDE authorized account structure.

Contracts

The District had a contract with AlignK12 for CFO services. Several sub-consultants were charged under AlignK12 for work including, budgeting, payroll forensics, and title grant work. Ideally, these contracts would be made directly with the District. This allows the subcontractors to have a direct relationship with the District. This would result in a more clear billing and responsibility to the District vs. the contractor. Additionally, it's likely that this contract would be considered to be an employee relationship for IRS and PERA purposes rather than an independent contractor. If that were to happen, the District would be subject to back Medicare, Federal withholding, and PERA contributions and related penalties.

SEC Reporting for Municipal Bond Issues

The Securities and Exchange Commission ("SEC") has imposed rules requiring issuers of governmental securities to report financial and operational information and notices of material events to nationally recognized municipal securities information repositories. Consequently, the District is responsible for compliance with this SEC ruling in respect of their bond issues until such time as the bonds mature or are otherwise retired. Filers should go to the [MSRB's Electronic Municipal Market Access \(EMMA\)](http://www.msrb.org/EMMA) site to make their secondary market disclosure filings. The District's filings were not completed for the last two years and were updated during the recent refunding of the District's 2010 General Obligation bonds.

Additional information can be obtained at:

<http://dataport.emma.msrb.org/AboutDataport.aspx?ReturnUrl=%2fSubmission%2fSubmissionPortal.aspx>

Governmental Accounting Standards Board Statement 84

Financial reporting standards for the District are promulgated by the Governmental Accounting Standards Board ("GASB"). GASB has issued Statement 84 which requires governments to change the presentation of agency funds. Effectively this will require the District to move Fund 74 activities to Fund 23 for fiscal year ended June 30, 2021.

Management Response:

During the auditors' physical visit to the District's administrative offices, auditors met with all members of the finance team, except for Accounts Payable. Auditing team also met with the District's senior administrative leadership, including the Superintendent, Assistant Superintendent and the acting Chief Financial Officer. Auditors were informed of the following proactive initiatives, resulting from the District's systemic approach of "Identifying, Isolating, Evaluating and Correcting" areas of operational weakness impacting Finance. These initiatives included a resetting of compensatory time during December 2020 so that District's policy GDBC is re-implemented with fidelity; the purchasing of position control auxiliary systems for both payroll and human resources to improve position control management; in August 2020 contracted training with the District's ERP vendor, Weidenhammer, to provide ongoing and relevant training to financial secretaries and administrative staff; weekly accounting training sessions with external CPA to assist in the transitioning of daily cash reconciliations and other duties to Accounting; posting of Accounts Payable position to comply with identified gaps in Segregation of Duties related to purchase orders, vendors and check processing; and lastly the District's efforts to hire a full-time Chief Financial Officer were impacted by the Corona Virus Pandemic resulting in the extension of AlignK12's short term contract to provide CFO services until June 30, 2021 while the District recruits for a full-time CFO and where all AlignK12 subconsultants establish direct relationships with the District beginning January 2021.

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

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February 3, 2021