

City Council and Management
City of Florence, Colorado

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Florence, Colorado (the “City”) 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 City’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not 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 a 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 internal control to be material weaknesses:

DRMO

The City participates in the Defense Reutilization and Marketing Office (“DRMO”) program. As a participant in the program, the police department receives a variety of donated equipment and supplies. The City’s police department maintains an inventory of the items received. Any equipment or supplies that are not utilized by the City must be maintained in inventory for at least 12 months before they can be sold. While the police department maintains records of the equipment and supplies, the value of the donated equipment and supplies is not recorded in the City’s financial records as required by generally accepted accounting principles. Specifically, Governmental Accounting Standards Board (“GASB”) Statement 72, Fair Value Measurement and Application, requires that donated capital assets be recorded at their acquisition value at the date of donation.

We recommend management review its processes for reporting donated assets in the City's financial statements to ensure that the value of assets owned, maintained, and insured by the City are properly recorded and reflected in the City's financial statements.

Additionally, during our audit field work, we were made aware that the Colorado Department of Safety conducted a Program Compliance Review (PCR) at the City's police department on March 29, 2022. As a result of the review, the City's police department was suspended from participation in the DRMO program for sixty days. We have reviewed the Colorado Department of Safety's report and recommend the City's management and police department review its processes and implement the recommendations for improvement provided in the PCR report.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

Building Permits

During our audit, we selected a sample of building permits that were issued in 2021 for testing. The City issued approximately 173 building permits. Of the 21 permits with value of \$100,000 or greater, we selected 5 permits for testing. We identified one permit that was miscalculated, resulting in an undercharge to the permit applicant by \$565. Because of this error, we then selected an additional 5 permits for testing and noted no additional miscalculations.

We concluded that the miscalculation was an oversight by a newer employee. We recommend that permits be reviewed by a second person with knowledge of the permit process and fee structure, and calculations be verified prior to issuance of each permit.

As part of our audit, we also reviewed the City's process for determining the amounts collected for building use tax that is due to Fremont County. The City's building department collects the 2.5% use tax fee due to Fremont County at the time of issuance of a building permit. The City then submits payment to Fremont County on a quarterly basis.

We noted during our audit that the report used to determine the amount owed to the County is not reconciled to the payments collected during the permit issuance process and recorded in the City's financial system. As a result, the City did not submit the full amount that was due to the County during 2021. Following our audit field work and discussions with the finance department, a reconciliation was performed between the report received from the building department and the City's financial records and a final payment for use tax owed to Fremont County was made.

We recommend management review its processes for reconciling building use tax reports to the City's financial system prior to issuing payment to Fremont County to ensure payments accurately reflect the amount owed.

Payroll

During our audit, we selected a sample of 12 employees from various departments for payroll testing. We noted no discrepancies in the amount paid in relation to the employees' approved time sheet or approved rate of pay. In addition, we requested completed I-9 forms for review. Of the 12 employees selected for testing, we noted one instance of an incomplete I-9 document.

We recommend management review its processes for employee onboarding to ensure that all personnel file related documents are properly completed and kept on file, which may avoid penalties in the case of a federal audit.

Internal Control and Separation of Duties

During our review of the City's internal control processes, we reviewed the City's processes for utility billing, payment receipting, petty cash reconciliation, accounts payable processing, and bank reconciliation. We identified no findings or errors during our review. However, due to the small size of the City's finance department, proper separation of duties in this area can be difficult to achieve.

In order to compensate for the lack of separation of duties, we recommend management and council consider implementing mitigating controls, such as city manager review of bank statements and reconciliations, review and approval of payroll registers prior to payroll processing, and council review of check payment reports, and invoices prior to checks being signed.

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

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