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To the Members of City Council City of Fruita, Colorado

We have audited the financial statements of the City of Fruita, Colorado (the "City") as of and for the year ended December 31, 2023. Professional standards require that we provide you with the following information related to our audit.

Qualitative Aspects of Accounting Policies

The City's management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in the Notes to the financial statements.

Financial reporting standards for the City are promulgated by the Governmental Accounting Standards Board ("GASB"). Effective in 2023, the City implemented GASB Statement No. 96, *Subscription-Based Technology Arrangements* ("GASB 96"), which required that the City report certain right-to-use subscription assets and liabilities, and recognize inflows or outflows of resources based on the payment provisions of each such arrangement. As discussed in Note E to the City's 2023 audited financial statements, the implementation of this new standard was applied effective January 1, 2023 but did not result in changes to the City's beginning net position, although additional disclosures required by the new standard were added in 2023.

No other 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 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:

- Estimating allowance for uncollectible receivables (\$0 at December 31, 2023), based on management's experience with customers, together with actual collections history since year-end.
- Estimating useful lives for capital assets subject to depreciation, which management has based on industry practice and experience

We evaluated the key factors and assumptions used to develop these assumptions 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.

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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. Those standards also require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Management has corrected all such misstatements prior to the finalization of the City's audited 2023 financial statements.

As detailed in Note F to the 2023 audited financial statements, the City's beginning 2023 fund balances and net positions were restated as follows:

- Beginning fund balances in the General Fund and the Capital Projects Fund were increased by \$159,470 and \$2,067,535, respectively, to reclassify unearned revenue from development impact fees to revenue and restricted fund balance/net position to reflect changes made in the Land Use Code effective January 17, 2020. Correspondingly, the beginning 2023 net position for governmental activities has also been increased by these amounts.
- Net position for governmental activities was increased by \$172,124 to correct the amortization of discounts and premiums on the 2019 Sales and Use Tax revenue bonds for the Fruita Community Center by using the effective interest method of amortization rather than the straight-line method.
- Net position for the Sewer Fund and for business-type activities in the government-wide Statement of Activities was increased by \$250,893 to correct the amortization of premiums on the CWRPDA Sewer Loan for the Wastewater Treatment Plant by using the effective interest method of amortization rather than the straight-line method.

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 are included in the management representation letter.

Recommendations

In planning and performing our audit of the City's financial statements as of and for the year ended December 31, 2023, 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 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 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 significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified.

Recommendations (continued)

During our audit, we noted the following opportunities for improvement of the City's internal controls and business practices:

Department Cash Receipts

While testing the City's departmental cash receipting processes, we observed instances in which the Police Department and the Community Center had not consistently issued receipts at the time of payment. Both departments generate unexpected revenue, which increases the risk for misappropriation of assets if receipts are not provided at the time of service. We encourage the City to consider regular communication with departments reminding them that all checks should be restrictively endorsed, timely deposited, and source documents (manual receipt, deposit slips, and copies of receipts) retained for future reference. In addition, a sign should be present at all departments where payments are accepted stating "All customers will be provided a receipt" or similar verbiage. These practices should help reduce the risk of loss by ensuring that all funds collected are deposited and documented by the City.

Police Department Deposits

The administrative staff of the Police Department use a manual receipt book to account for cash receipts pertaining to VIN inspections. In our testing of a randomly-selected deposit, we were unable to verify that one of the manual receipts had been included in the deposit and we found that 8 of the transactions listed on the deposit did not have a written receipt to support the collection. All deposits should have carbon copies of corresponding manual receipts retained for Finance's review.

In addition, we noted that the date range between the first and last receipt in the deposit fell between May 2023 and January 2024, indicating that the underlying receipts were likely held in the department for an extended period and not timely deposited into the City's bank accounts. As a result, the City is exposed to the risk of potential theft the longer the cash remains on premises. To strengthen internal controls in this area, we recommend that bank deposits be made at least monthly, with increased frequency during periods of higher cash inflow.

Community Center Passes

Community Center staff have available recreation passes at no-charge that can be passed out to customers. These passes are often utilized to compensate customers if they encounter difficulties during their visit to the Community Center or, in some cases, when a customer has been over-charged. These passes are currently kept unsecured where all staff have access to them, and do not include an expiration date or Manager's signature for who the card was released to. Having the cards available to all staff increases the risk of misuse or improper authorization. We recommend that free passes available for distribution be locked in a secured place, include an expiration date, and require a signature from a Manager for redemption. A log should be maintained and reviewed for reasonability on a periodic basis.

Sales Tax

In our testing of a sample of 26 purchasing card transactions during 2023, we found 5 instances where sales tax was paid on purchases, and all were initiated from the same department. As a tax-exempt entity, the City qualifies for exemption from state and local sales taxes, so reducing erroneous sales tax payments on purchasing card transactions will yield savings for the City.

The City currently does not have a policy to govern usage of a City-issued purchasing card. In order to reduce the risk of improper use of the City's purchasing cards, we recommend the City adopt a purchasing card usage policy, outlining appropriate amounts and types of purchases that can be made. Once the policy is adopted, each employee should receive a copy and sign and date it to evidence their acknowledgement and adherence to their responsibilities under the formalized policy. The signed copy should be retained in each employee's personnel file.

Recommendations (continued)

Sole Source Vendors

The City's 2021 *Purchasing Policy* allows for sole source vendors in cases where products or services may only have a limited number of suppliers. Sufficient written justification is required be made before approval by the City Manager. Sole source exceptions are typically granted for a one-year period but may be extended to cover multiple years, but are not to exceed 5 years. During our audit procedures, we found a 2023 check disbursement for which the last justification for the sole source vendor was signed in October 2015. We recommend sole source vendor relationships be reviewed regularly to ensure compliance with City policy.

This report is intended solely for the information and use of the City Council, 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,

A handwritten signature in blue ink that reads "McMahan and Associates, L.L.C.".

McMahan and Associates, L.L.C.
Avon, Colorado
August 15, 2024