



City of Pueblo, Colorado

Federal Financial Assistance
Single Audit Report
December 31, 2017

City of Pueblo, Colorado

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

City Council
City of Pueblo, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pueblo, Colorado (the "City"), as of and for the year ended December 31, 2017, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the 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.

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 deficiency described in the accompanying schedule of findings and questioned costs to be material weaknesses. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anton Collins Mitchell LLP

Greeley, Colorado
July 31, 2018



Independent Auditor's Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

City Council
City of Pueblo, Colorado

Report on Compliance for Each Major Federal Program

We have audited the City of Pueblo, Colorado's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-001, 2017-002 and 2017-003. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-002 to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated July 31, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Anton Collins Mitchell LLP
Greeley, Colorado
July 31, 2018

CITY OF PUEBLO, COLORADO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Contract Number	Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF JUSTICE				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0523; 2016- DJ-BX-0558	\$ 63,547	\$ -
Equitable Sharing Program	16.922		30,891	-
Public Safety Partnership and Community Policing Grants	16.710	2016UMWX0152	290,958	-
Missing Children's Assistance	16.543	#2015-MC-FX-K030	2,820	-
TOTAL U.S. DEPARTMENT OF JUSTICE			388,216	-
U.S. DEPARTMENT OF HOMELAND SECURITY				
Assistance to Firefighters Grants	97.044	EMW-2015-FO-05349	59,288	-
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2013-FH-00445	55,464	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			114,752	-
U.S. DEPARTMENT OF ENVIRONMENTAL PROTECTION				
Capitalization Grants for Clean Water State Revolving Funds	66.458		286,880	-
TOTAL U.S. DEPARTMENT OF ENVIRONMENTAL PROTECTION			286,880	-
U.S. DEPARTMENT OF AGRICULTURE				
US Forest Service Partnership Agreements	10.699	16-CS-11021200-018	4,255	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			4,255	-
U.S. DEPARTMENT OF TRANSPORTATION				
Highway Planning and Construction Cluster Passed Through Colorado Department of Transportation: Highway Planning and Construction	20.205	BRO M086-055 (17055)	2,549,498	-
		HPP 0251-331 (16640)	123,442	-
		SHO M068-065 (19215)	73,213	-
		STE M086-059 (18353)	13,868	-
		STE M086-053 (16810)	26,954	-
		BRO M086-074 (20648)	87,870	-
		STE M086-068 (19288)	350,000	-
			3,224,845	-
Total Highway Planning and Construction Cluster			3,224,845	-

CITY OF PUEBLO, COLORADO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Contract Number	Expenditures	Amount Provided to Subrecipients
Highway Safety Cluster				
Passed Through Colorado Department of Transportation:				
State and Community Highway Safety	20.600	411010693 411012711	37,435	-
Total Highway Safety Cluster			37,435	-
Passed through Pueblo Area Council of Governments-				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	2015-016	384,421	-
Highway Research and Development Program	20.200	41100903/411014078	4,942	-
			389,363	-
Airport Improvement Program	20.106	3-08-0046-035-2017	503,460	-
Federal Transit Cluster				
Federal Transit Formula Grants	20.507		2,081,265	-
Total Federal Transit Cluster			2,081,265	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			6,236,368	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218		1,259,155	255,668
Total CDBG - Entitlement Grants Cluster			1,259,155	255,668
Home Investments Partnerships Program	14.239		871,815	570,394
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			2,130,970	826,062
TOTAL EXPENDITURES OF FEDERAL AWARDS		Grand Total:	\$ 9,161,441	\$ 826,062

City of Pueblo, Colorado
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the City of Pueblo, Colorado (the “City”) under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in The Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allocable or are limited as to reimbursement.

3. Indirect Cost Rate

The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

City of Pueblo, Colorado
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes _____ No
- Significant deficiency(ies) identified? X Yes _____ None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) _____ X Yes _____ No

Identification of major programs:

<u>CFDA/Contract Number</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction
14.239	Home Investments Partnership Program
16.710	Public Safety Partnerships and Community Policing Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

City of Pueblo, Colorado
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

2017-001 - Cash Management

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Title: HOME Investment Partnership Program

CFDA Number: 14.239

Type of Finding: Material Weakness in Compliance and Internal Control over Compliance

Criteria: The City should have a system of internal controls to allow management or employees, in the normal course of performing assigned functions, to prevent or detect and correct errors in draw requests for federal reimbursement on a timely basis.

Condition: During our testing of cash management for the grant, we noted that the spreadsheet used by the City to calculate federal funds available to draw down contained an error where an invoice was improperly included twice in the amounts of funds to draw.

Questioned Costs: The amount of the invoice that was included twice was \$41,207.

Effect: As a result of errors in the drawdown calculation spreadsheet noted above, the City overdrew the federal grant by \$41,207.

Cause: The City does not have an adequate process in place to compare project expenditures between the spreadsheet used to calculate the federal draw and the amounts recorded in the general ledger.

Context: As part of our testing, we agreed the amount of federal expenditures per the Schedule of Expenditures of Federal Awards to the amounts recorded as revenue and related receivables in the trial balance for the program.

Recommendation: We recommend that the City implement a process to reconcile the amounts used in the spreadsheet to calculate the drawdown for the grant and the amounts recorded in the trial balance to ensure that amounts are not duplicated and are in agreement with those recorded in the trial balance.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with the finding. The City will provide additional training for personnel responsible for reporting on grants, as well as a final step in the process to reconcile the amounts used in the grant drawdown calculation spreadsheet to the amounts in the general ledger to ensure that amounts are not duplicated and are in agreement with those recorded in the general ledger/trial balance.

City of Pueblo, Colorado
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

2017-002 - Allowable Costs

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Title: HOME Investment Partnership Program

CFDA Number: 14.239

Type of Finding: Significant Deficiency in Compliance and Internal Control over Compliance

Criteria: The Code of Federal Regulations CFR 200.430(8)(i) governing compensation for personal services states that charges for salaries and wages must be based on records and accurately reflect the work performed. These records must (i) be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (ii) be incorporated into the official records of the non-Federal entity; (iii) reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities; and (vi) support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition: During testing, we noted that the allocation percentage used to allocate administrative personnel costs between the two HUD grants at the City was based on a time study from 2013 when there were more grants being administered by the Pueblo HUD office.

Questioned Costs: None identified.

Effect: We are unable to determine whether the percentages allocated between the two grants is reasonable based on actual time and effort spent by the employees.

Cause: The City did not update its allocation spreadsheet to ensure that the percentage allocations were reasonable with the reduction in the number of programs and based on actual time and effort spent for each employee on the grants.

Context: As part of our testing of allowable costs charged to the federal award, we tested allocations of administrative payroll costs of employees that were charged to the grant as part of our allowable costs testing of the grant.

Recommendation: We recommend that the City perform regular time studies to ensure that cost allocations between awards are current and reflect actual time and efforts attributable to each grant.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with the finding. Regular time studies will be performed annually, beginning August 1, 2018, to ensure that cost allocations between awards are current and reflect actual time and efforts attributable to each grant.

City of Pueblo, Colorado
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

2017-003 - Special Tests and Provisions

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program Title: HOME Investment Partnership Program

CFDA Number: 14.239

Type of finding: Significant Deficiency in Compliance

Criteria: The Code of Federal Regulations 24 CFR sections 92.209(i), 92.251(f), and 92.504(d) stipulates that during the period of affordability (that period for which the non-federal entity must maintain subsidized housing) the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify information submitted by the owners no less than (a) every 3 years for projects containing 1-4 units, (b) every 2 years for projects containing 5-25 units, and (c) every year for projects with 26 or more units. The participating jurisdiction must perform on-site inspections of rental housing occupied by tenants receiving HOME-assisted tenant-based rental assistance to determine compliance with housing quality standards.

Condition: During testing of monitoring, we noted that three properties requiring annual monitoring did not have on-site monitoring performed during the year ended December 31, 2017.

Questioned Costs: None.

Effect: The City is not in compliance with monitoring requirements set forth in the Code of Federal Regulations.

Cause: The City experienced significant turnover in Housing and Citizen Services (HCS) staff during the year, including the position that typically performs the onsite monitoring. As a result, the City was unable to complete all required inspections.

Context: We tested monitoring of HOME assisted tenant-based rental assistance (TBRA) properties as part of our test of compliance with special tests and provisions of the grant.

Recommendation: We recommend that the City take appropriate measures to ensure that all properties requiring on-site monitoring during the year are monitored in a timely fashion.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with this finding. Currently vacant positions will be filled as soon as possible to ensure that all properties requiring on-site monitoring during the year are monitored in a timely fashion.

City of Pueblo, Colorado
Summary Schedule of Prior Year Findings
Year Ended December 31, 2017

2016-001 Recording Compensated Absences
Material Weakness in Financial Reporting

Condition: During prior years, the City was using an improper method for calculating the liability for compensated absences resulting in material overstatement in both governmental and business-type activities.

Status: This finding has been corrected in the current year.



July 30, 2018

U.S. Department of Transportation
Office of Inspector General
City Crescent Building
National Single Audit Coordinator
10 South Howard Street, Suite 4500
Baltimore, Maryland 21201

Audit Period	December 31, 2017
Audit Finding Number	2017-001
Audit Finding Title	Cash Management
Specific Steps to be Taken	Additional training for personnel responsible for reporting on grants, as well as a final step in our process to reconcile the amounts used in the grant drawdown calculation spreadsheet to the amounts in the general ledger to ensure that amounts are not duplicated and are in agreement with those recorded in the general ledger/trial balance.
Anticipated Completion Date	August 2018 through December 2018
Name and Title of Contact Person responsible for Corrective Action	Roni Kimbrel, Finance Director

Audit Finding Number	2017-002
Audit Finding Title	Allowable Costs

Specific Steps to be Taken Regular time studies will be performed annually, beginning August 1, 2018, to ensure that cost allocations between awards are current and reflect actual time and efforts attributable to each grant.

Anticipated Completion Date October 31, 2018

Name and Title of Contact
Person Responsible for
Corrective Action Bryan Gallagher, Acting Director of Housing and Human Services

Audit Finding Number 2017-003

Audit Finding Title Special Tests and Provisions

Specific Steps to be Taken Currently vacant positions will be filled as soon as possible to ensure that all properties requiring on-site monitoring during the year are monitored in a timely fashion.

Anticipated Completion Date December 31, 2018

Name and Title of Contact
Person Responsible for
Corrective Action Bryan Gallagher, Acting Director of Housing and Human Services

Sincerely,



Roni Kimbrel
Finance Director