



City of Pueblo, Colorado

Federal Financial Assistance
Single Audit Report
December 31, 2016

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, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 31, 2017.

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. 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness (2016-001).

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*.



City of Pueblo, Colorado's Response to Findings

The City's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
October 2, 2017



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, 2016. 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, 2016.

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.

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 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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 City of Pueblo as of and for the year ended December 31, 2016, and have issued our report thereon dated August 31, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 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 financial statements or to the 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 financial statements as a whole.

Anton Collins Mitchell LLP

Greeley, Colorado
October 2, 2017

CITY OF PUEBLO, COLORADO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FISCAL YEAR ENDED DECEMBER 31, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identification Number	Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF JUSTICE				
Edward Byrne Memorial Justice Assistance Grant Program	16.738		\$ 98,382	\$ 22,989
Equitable Sharing Program - (Federal Forfeiture/Asset Forfeiture)	16.922		50,599	-
TOTAL U.S. DEPARTMENT OF JUSTICE			148,981	22,989
U.S. DEPARTMENT OF HOMELAND SECURITY				
Assistance to Firefighters Grants	97.044		197,546	-
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083		265,816	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		18,750	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			482,112	-
U.S. DEPARTMENT OF ENVIRONMENTAL PROTECTION				
Capitalization Grants for Clean Water State Revolving Funds	66.458		469,942	-
TOTAL U.S. DEPARTMENT OF ENVIRONMENTAL PROTECTION			469,942	-
U.S. DEPARTMENT OF TRANSPORTATION				
Highway Planning and Construction Cluster				
Passed Through Colorado Department of Transportation:				
Highway Planning and Construction	20.205	M086-055 (17055)		
		HPP0251-331 (16640)		
		M086-060 (18362)		
		M068-065 (19215)		
		M086-059 (18353)		
		M086-069 (19469)		
			4,655,499	
Passed Through Colorado Parks and Recreation - Recreational Trails Program	20.219	14-TRGL-64522	27,500	
Total Highway Planning and Construction Cluster			4,682,999	-
Highway Safety Cluster				
Passed Through Colorado Department of Transportation:				
State and Community Highway Safety	20.600	411007048	35,417	-
		411010693		
National Priority Safety Programs	20.616	411008626	1,991	-
Total Highway Safety Cluster			37,408	-

CITY OF PUEBLO, COLORADO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FISCAL YEAR ENDED DECEMBER 31, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identification Number	Expenditures	Amount Provided to Subrecipients
Federal Transit Cluster				
Federal Transit_Formula Grants	20.507		2,329,442	-
Total Federal Transit Cluster			2,329,442	-
Passed Through Pueblo Area Council of Governments- Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	2015-016	399,617	-
Airport Improvement Program	20.106		30,516	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			7,479,983	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218		1,481,800	247,940
Total CDBG - Entitlement Grants Cluster			1,481,800	247,940
Home Investments Partnership Program	14.239		767,992	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			2,249,792	247,940
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 10,830,809	\$ 270,929
			Grand Total:	

City of Pueblo, Colorado
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the City of Evans, Colorado (the “City”) under programs of the federal government for the year ended December 31, 2016. 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, 2016

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? X Yes 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? Yes X No
- Significant deficiency(ies) identified? Yes X 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) Yes X No

Identification of major programs:

<u>CFDA/Contract Number</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction
20.219	Recreational Trails Program
20.507	Federal Transit Formula Grant
97.044	Assistance to Firefighter 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, 2016

Section II - Financial Statement Findings

Finding 2016-001 - Recording Compensated Absences (Material Weakness)

Condition: During our testing, ACM noted an overstatement of the liability for compensated balances by \$1,806,069 for governmental activities and \$187,792 for business-type activities.

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 financial reporting on a timely basis.

Questioned Costs: None.

Effect: The City's liability was overstated for compensated balances by \$1,806,069 for governmental activities and \$187,792 for business-type activities.

Cause: The City was using an out of date method for calculating and adjusting the liability on an annual basis.

Recommendation: We recommend that the City true up the liability going forward to reflect a more accurate estimate of the amounts that the City is liable to employees.

Views of Responsible Officials and Planned Corrective Actions: We, at the City of Pueblo, agree with the finding noted above. We agree with the auditors' suggestions and have taken the necessary steps to implement these suggestions.

Section III - Federal Award Findings and Questioned Costs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

City of Pueblo, Colorado
Summary Schedule of Prior Year Findings
Year Ended December 31, 2016

2015-002 Internal Control over Financial Reporting

In reviewing and performing audit procedures relative to capital assets of the City's sewer user fund, it was noted that certain capital assets reported by the City as 2015 asset disposals totaling approximately \$637,000 that, upon further inquiry, were not in fact capital asset disposals. This required a significant correction to the capital asset subsidiary records, along with corrections to the resulting financial statements. As such, the City's sewer user fund capital assets were materially misstated at December 31, 2015, which is an indication of the lack of internal control over financial reporting.

The City uses the modified accrual basis of accounting in reporting revenue in its governmental funds. Modified accrual accounting essentially means that the City recognizes certain revenues in the current year (2015) even if the funds are actually received in the first 60 days of the following year (2016). In this case, the City did not recognize municipal court fine revenue in 2015 totaling approximately \$141,500 that was actually collected in 2016. The collection of this amount was for fines assessed in 2015. Again, this circumstance is an indication of the lack of internal control over financial reporting. The existence of these conditions was generally the result of the lack of the application of generally accepted accounting principles to the specific circumstances encountered.

It was recommended that City finance personnel be cognizant of generally accepted accounting principles as they apply to specific transactions identified.

Current Year Status:

Implemented.

Roni Kimbrel, CPA
Director of Finance



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Manager for Finance*

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Department of Finance

October 2, 2017

Anton Collins Mitchell
2015 Clubhouse Drive, Suite 203
Greeley, CO 80634

Corrective Action Plan

Regarding the material weakness regarding the recording of compensated absences in our financial statements for the year ended December 31, 2016:

Section II - Financial Statement Findings

Finding 2016-001 - Recording Compensated Absences (Material Weakness)

Condition: During our testing, ACM noted an overstatement of the liability for compensated balances by \$1,806,069 for governmental activities and \$187,792 for business-type activities.

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 financial reporting on a timely basis.

Questioned Costs: None.

Effect: The City's liability was overstated for compensated balances by \$1,806,069 for governmental activities and \$187,792 for business-type activities.

Cause: The City was using an out of date method for calculating and adjusting the liability on an annual basis.

Recommendation: We recommend that the City true up the liability going forward to reflect a more accurate estimate of the amounts that the City is liable to employees.

Views of Responsible Officials and Planned Corrective Actions: We, at the City of Pueblo, agree with the finding noted above. We agree with the auditors' suggestions and have taken the necessary steps to implement these suggestions.

We have implemented a corrective action to address this finding. We calculated the actual liability associated with each employee's accrued leave balance as of December 31, 2016. This actual dollar amount was included in our 2016 CAFR.

A handwritten signature in blue ink that reads "Roni Kimbrel".

Roni Kimbrel,
Director of Finance