



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2019

City of Durango, 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

Members of City Council
City of Durango, Colorado

We have audited, in accordance with 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 discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Durango (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated March 16, 2021.

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 opinion 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002 and 2019-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Durango'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*.

Entity's Response to Findings

The City's response to the findings 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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Denver, Colorado
March 16, 2021



Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Members of City Council
City of Durango, Colorado

Report on Compliance for the Major Federal Program

We have audited City of Durango’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 the City’s major federal program for the year ended December 31, 2019. The City’s major federal program is 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 the City’s major federal program 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 the major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on the Major Federal Program

In our opinion, The City of Durango complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 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. *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. 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 governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 16, 2021, 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.

Eide Spilly LLP

Denver, Colorado

March 16, 2021

City of Durango, Colorado
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

City of Durango, Colorado
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed- Through to Subrecipients
U.S. Department of Transportation:				
Direct Funding:				
Airport Improvement Program - AIP 46	20.106		\$ 30,439	\$ -
Airport Improvement Program - AIP 51	20.106		1,701	-
Airport Improvement Program - AIP 52	20.106		\$ 5,946,260	-
Airport Improvement Program - AIP 52	20.106		67,802	-
Airport Improvement Program - AIP 52	20.106		<u>90,512</u>	-
Airport Improvement Program - AIP 54	20.106		6,104,574	-
Total Airport Improvement Program			<u>2,500,000</u>	-
			<u>8,636,714</u>	-
Pass-Through Program From:				
Colorado Department of Transportation				
Formula Grants for Rural Areas and Tribal Transit Program	20.509	19-HTR-ZL-00089	744,057	-
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	5310	66,999	-
Highway Planning and Construction	20.205	17-HA5-ZH-00140-M0003	7,861	-
Total Colorado Department of Transportation			<u>818,917</u>	-
Total U.S. Department of Transportation			<u>9,455,631</u>	-
U.S. Department of Homeland Security:				
Pass-Through Program From:				
Colorado Department of Homeland Security and Emergency Management				
Emergency Management Performance Grant	97.042	EMD-2019-EP-00006	30,000	-
Total U.S. Department of Homeland Security			<u>30,000</u>	-
U.S. Department of Housing and Urban Development:				
Pass-Through Program From:				
Colorado Department of Local Affairs				
Community Development Block Grant	14.228	16-038	46,000	46,000
Community Development Block Grant	14.228	19047	526,800	526,800
Total Community Development Block Grant			<u>572,800</u>	<u>572,800</u>
Total U.S. Department of Housing and Urban Development			<u>572,800</u>	<u>572,800</u>
U.S. Department of Interior				
Bureau of Reclamation				
Direct Funding:				
Recreation Resources Management	15.524		324,881	-
Recreation Resources Management	15.524		<u>175,581</u>	-
Total U.S. Department of Interior			<u>500,462</u>	-
Department of Justice				
Direct Funding:				
Bulletproof Vest Partnership	16.607		2,434	-
Pass-Through Program From:				
Pagosa Springs, Colorado Police Department				
Missing Children's Assistance	16.543		7,577	-
Total Department of Justice			<u>10,011</u>	-
National Endowment for the Humanities				
Direct Funding:				
Promotion of the Arts Grants to Organizations and Individuals	45.024		13,020	-
Total National Endowment for the Humanities			<u>13,020</u>	-
US Department of Health & Human Services				
Pass-Through Program From:				
Center for Disease Control and Prevention				
State Actions to Improve Oral Health Outcomes and Partner Actions to Improve Oral Health Outcomes	93.366		4,510	-
Total US Department of Health & Human Services			<u>4,510</u>	-
Total Expenditures of Federal Awards			<u>\$ 10,586,434</u>	<u>\$ 572,800</u>

See Notes to the Schedule of Expenditures of Federal Awards

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes federal award activity of the City of Durango, Colorado (the City) under programs of the federal government for the year ended December 31, 2019. The information 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 / fund balance, or cash flows of the City.

Note B – Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting, except for 1) expenditures received from the Federal Aviation Administration (FAA) which are reported on the accrual basis of accounting, and 2) subrecipient expenditures, which are recorded on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement.

Note C – Indirect Cost Rate

The City does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	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 Uniform Guidance 2 CFR 200.516:	No

Identification of major program:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
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Airport Improvement Program	20.106
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Dollar threshold used to distinguish between type A and type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	No
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Section II – Financial Statement Findings

2019-001 **Restatement and Material Audit Adjustments**
Material Weakness

Criteria: The City is required to provide accurate GAAP basis financial data for preparation of the annual financial statements. Additionally, a good system of internal accounting control contemplates an adequate system for recording, processing and reconciling account balances to the financial statements.

Condition: Management identified two errors during 2019 that resulted in a material audit adjustment and restatement to the previously issued December 31, 2018 financial statements, summarized as follows:

- It was determined during 2019 that various capital assets capitalized at December 31, 2018 should have been expensed in prior years. As such, when the classification was corrected in 2019, capitalized assets and related net position were adjusted related to change in prior accumulated depreciation as of December 31, 2018.
- Additionally, it was determined in 2019 that the accounts receivable balance within the Statement of Net Position for Governmental activities at December 31, 2018 was understated and should have included sales tax receivables for revenue received during 2019 that related to the year ended December 31, 2018.

The errors noted were identified by consultants hired by management to help reconcile the accounting records and prepare the December 31, 2019 financial statement for the airport.

Cause: The Airport's financial statement reconciliation controls failed to prevent, or detect on a timely basis, material errors in the financial statements that were noted. Specifically, management failed to properly identify noncapitalizable costs included in the capitalized assets account group. Additionally, management failed to accrue for revenues related to the accounting period being reported on that were received in the subsequent year.

Effect: Capital assets and accumulated depreciation were overstated at December 31, 2018 within the water fund and the Business-Type Activities and the related Net Position and Fund balance were understated by the same amount. Additionally, accounts receivable and Net Position were understated in both the General Fund and Governmental Activities. Management has posted the correcting journal entries for the items noted, which resulted in a restatement of the amounts noted.

Recommendation: We recommend management revisit costs captured as capital in nature throughout the year to ensure that they meet the definition of a capitalizable item. Additionally, management should ensure that year-end close procedures include a search for payments received in the subsequent period that relate to the year on which is being reported.

Views of Responsible Officials: Agree

Section II – Financial Statement Findings (continued)

2019-002 **Lack of Segregation of Duties and Budgeting Controls Resulting in Fraud
Material Weakness**

Criteria: Segregation of Duties (SOD) is a basic building block of sustainable risk management and internal controls. The principle of SOD is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, fraud and error risks are far less manageable.

Condition: During 2019, the City discovered a scheme being perpetrated by the former Finance Director that allowed her to embezzle funds for an extended period of time while employed with the City.

Cause: The City lacked proper segregation of duties between the budgeting, purchasing and cash disbursement processes, allowing for the ability of the former Finance Director to override controls as needed to continue the scheme undetected. Additionally, there are no written policies and procedures detailing the financial processes of the City including cash receipting, cash disbursements and payroll transactions. Further, we noted the following deficiencies within the budgeting process:

- There was a lack of segregation of duties within the budgeting process as a whole. The former Finance Director was independently working with departments to create the budgets, and due to her control over the process, she was able to essentially budget for the fraud that she was committing.
- Budgeting of multi-year projects are not re-appropriated each year for accurate accounting of the projects and the year in which expenses are incurred, thus potentially understating budgeted expenses and accountability of total project costs.
- The annual cash basis budgeting process does not consider a reconciliation to actual fund balances on a roll forward basis and was utilizing 'budgeted' fund balance amounts that did not approximate actual; therefore reconciliations to an actual 'cash' balance at year end within the budget was erroneous.

Lastly, we note that the City has no whistleblower policy or fraud hotline available for employees or others to use to report grievances, unusual transactions or unethical activity.

Effect: Without written policies and procedures, expectations for employee behavior are difficult to set and policies are difficult to analyze for effectiveness on a periodic basis, which we believe should occur. Regarding the budget, a properly structured budget should derive the amount of cash that will be utilized or which will be needed to support operations. This information can be used by the City to plan for the funding needs in the future. The current budgeting process does not allow for future planning needs as discussed. It is necessary to plan

Section II – Financial Statement Findings (Continued)

ahead in order to secure the funds to pay for large expenditures and complete complex projects, which currently are not being accounted for in the current budget. It's important to plan ahead to ensure that long term-goals can be achieved, and funding can be secured to complete planned projects. Finally, ensuring that proper segregation of duties exist within various processes in the City including cash handling, budgeting and purchasing allow for several employees to be involved in any one activity and limits the risk of fraud or errors from occurring.

Recommendation: Processes and controls over areas such as budgeting, cash handling and purchasing should be written and periodically reviewed to ensure proper segregation of duties are in place and procedures and controls remain effective and ensure accurate financial reporting is performed.

Additionally, the budgeting process should be revisited to ensure that budgets are reconciled to true fund balance and net position balances and ensure that multi-year projects are being appropriately accounted for to ensure that future costs on the overall project is accurate and not understated.

Additionally, we recommend the City consider implementing a whistle blower policy or fraud hotline. Having clear, open channels for employees to report unusual and unethical activity has proven to reduce loss from fraud, is financially prudent and allows for reporting to governance to help prevent future losses.

Views of Responsible Officials: Agree

Section II – Financial Statement Findings (Continued)

2019-003 **Reconciliation Controls resulting in incomplete SEFA
Material Weakness**

Criteria: In order to insure the Schedule of Expenditures of Federal Awards (“SEFA”) prepared by management is accurate and meaningful, the City should have a system of internal controls in place that includes year-end reconciliations of general ledgers and expenditures by all departments and programs with corresponding supervisor reviews and documentation thereof to foster recording and processing of financial data within the SEFA in an accurate and timely manner.

Condition: In final reconciliations of the City’s grant revenues to expenses reported on the SEFA, we noted the following instance in which improvements to the design and implementation of controls surrounding year-end reconciliations related to preparation of the SEFA could be improved:

- During review of the SEFA, it’s important to reconcile Federal Financial Assistance (FFA) expenditures to the general ledgers of all funds at the department level. To ensure all expenditures are complete and reported on the SEFA, a matching of program revenues and expenses should also be performed to further corroborate the completeness of the department level expenditure reviews. The matching of federal revenues and expenditures, reported on the SEFA was not performed timely and in turn, expenditures related to one FFA grant were not included within the SEFA prepared and provided to us for our audit. This lead to a new SEFA being provided at the end of audit fieldwork when this was discovered by management which subsequently lead to re-performing the major program determination to ensure appropriate testing coverage was obtained and no modifications needed to be made to initial risk assessments as well as additional testing within the FFA program which had originally been selected as a major program.

Cause: The grant accountant failed to reconcile federal award revenues with corresponding expenses to determine the matching of those accounts and thus the completeness of federal expenditures that should be recognized and reported on the SEFA. The incomplete reconciliation process did not identify the expenditures within one of the FFA programs and thus these expenditures were missing from the original SEFA preparation.

Effect: When reconciliations are inaccurate or not properly completed, this could potentially lead to misstated balances which includes federal expenditures and inaccurate reporting within the SEFA.

Section II – Financial Statement Findings (continued)

Recommendation: We recommend the City improve controls surrounding the performance and approvals of reconciliations surrounding preparation of the SEFA. A checklist of departmental reconciliations to the SEFA could be developed and utilized by the accounting department in insuring departmental SEFA reconciliations are accurate and reported properly in the SEFA. Department heads and/or key personnel of the accounting department may also consider performing secondary reviews to ensure accuracy of schedules and reconciliations, such as the matching of federal revenues to federal expenses as a final check of the reconciliations to ensure completeness.

Views of Responsible Officials: Agree

Section III – Federal Award Findings and Questioned Costs

No current year findings reported.