



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated October 26, 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) 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.

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.

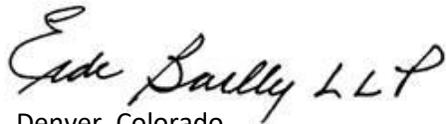
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Denver, Colorado
October 26, 2021



Independent Auditor’s Report on Compliance for Each 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 Each 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 each of the City’s major federal programs for the year ended December 31, 2020. 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 qualified and unmodified opinions on compliance for the major federal programs. However, our audit does not provide a legal determination of the City’s compliance.

Basis for Qualified Opinion on #15.524, Recreation Resources Management

As described in the accompanying schedule of findings and questioned costs, City of Durango did not comply with requirements regarding CFDA 15.524 Recreation Resources Management as described in finding number 2020-001 for Program Income, Cash Management, and Reporting. Compliance with such requirements is necessary, in our opinion, for City of Durango to comply with the requirements applicable to that program.

Qualified Opinion on #15.524, Recreation Resources Management

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 Recreation Resources Management for the year ended December 31, 2020.

Opinion on Each of the Other Major Federal Programs

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 each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2020.

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 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 and significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

City of Durango's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. City of Durango'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 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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated October 26, 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.



Denver, Colorado
October 26, 2021

City of Durango, Colorado
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2020

City of Durango, Colorado
Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/ 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 52	20.106		\$ 327,546	\$ -
Airport Improvement Program - AIP 53	20.106		1,719,943	
Airport Improvement Program - AIP 55	20.106		1,786,121	
COVID-19 - Airport Improvement Program - AIP 56	20.106		996,694	
Total Airport Improvement Program			<u>4,830,304</u>	<u>-</u>
Pass-Through Program From:				
Colorado Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205	17-HA5-ZH-00140-M0003	843,792	-
Formula Grants for Rural Areas and Tribal Transit Program	20.509	20-HTR-ZL-03099	673,676	-
COVID-19 - Formula Grants for Rural Areas and Tribal Transit Program	20.509	20-HTR-ZL-03218	367,658	-
Total Formula Grants for Rural Areas and Tribal Transit Program			<u>1,041,334</u>	<u>-</u>
Enhanced Mobility of Seniors and Individuals with Disabilities Cluster				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	20-HTR-ZL-03133	66,897	-
Buses and Bus Facilities, Competitive, and Low or No Emissions Programs Cluster				
FTA Buses and Bus Facilities Grant	20.526	19-HTR-ZL-00062	263,996	-
FTA Buses and Bus Facilities Grant	20.526	19-HTR-ZL-00192	207,801	-
Total Buses and Bus Facilities Formula & Discretionary Programs Cluster			<u>471,797</u>	<u>-</u>
Total Colorado Department of Transportation			<u>2,423,820</u>	<u>-</u>
Total U.S. Department of Transportation			<u>7,254,124</u>	<u>-</u>
U.S. Department of Treasury				
Pass-Through Program From:				
Colorado Department of Local Affairs				
COVID-19 - Coronavirus Relief Fund Program	21.019	CVRF CM-124	861,196	-
Total U.S. Department of Treasury			<u>861,196</u>	<u>-</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-2020-20EM-21-63	30,000	-
Emergency Management Performance Grant	97.042	EMD-2019-EP-00006	625	-
Total U.S. Department of Homeland Security			<u>30,625</u>	<u>-</u>

City of Durango, Colorado
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/ Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed- Through to Subrecipients
U.S. Department of Housing and Urban Development:				
Pass-Through Program From:				
Colorado Department of Local Affairs				
Community Development Block Grant	14.228	19-047	404,000	404,000
Total Community Development Block Grant			<u>404,000</u>	<u>404,000</u>
Total U.S. Department of Housing and Urban Development			<u>404,000</u>	<u>404,000</u>
Environmental Protection Agency:				
Pass-Through Program From:				
Colorado Water Resources & Power Development Authority				
Capital Grants for Clean Water State Revolving Fund Cluster	66.458	*	167,208	-
Total Capital Grants for Clean Water State Revolving Fund Cluster			<u>167,208</u>	<u>-</u>
Total Environmental Protection Agency			<u>167,208</u>	<u>-</u>
U.S. Department of Interior				
Bureau of Reclamation				
Direct Funding:				
Recreation Resources Management	15.524		832,915	-
Total U.S. Department of Interior			<u>832,915</u>	<u>-</u>
Department of Justice				
Direct Funding:				
Bulletproof Vest Partnership	16.607		1,806	-
Equitable Sharing Program	16.922		66,632	-
Pass-Through Program From:				
Pagosa Springs Police Department				
Missing Children's Assistance	16.543	*	3,700	-
Total Missing Children's Assistance			<u>3,700</u>	<u>-</u>
Total Department of Justice			<u>72,138</u>	<u>-</u>
Institute of Museum and Library Services				
Pass-Through Program From:				
Colorado Department of Education				
COVID-19 - Grants to States	45.310	*	10,000	-
Total Institute of Museum and Library Services			<u>10,000</u>	<u>-</u>
US Department of Health & Human Services				
Pass-Through Program From:				
Colorado Office of Early Childhood Development				
Child Care and Development Block Grant Cluster	93.575	*	3,125	-
Total US Department of Health & Human Services			<u>3,125</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 9,635,331</u>	<u>\$ 404,000</u>

* Pass-through entity identifying number not available

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, 2020. 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	None Reported
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	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified for all major federal programs except for Recreation Resources Management, which was qualified for the program income, cash management, and reporting requirements.
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major program:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Recreation Resources Management	15.524
Airport Improvement Program	20.106
Highway Planning and Construction Cluster	20.205
Formula Grants for Rural Areas and Tribal Transit Program	20.509
COVID-19 - Coronavirus Relief Fund Program	21.019

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

No current year findings reported.

Section III – Federal Award Findings and Questioned Costs

2020-001 **Direct Program**
Department of Interior, Bureau of Reclamation
CFDA# 15.524
Recreation Resources Management

Program Income, Cash Management, Reporting
Material Noncompliance
Material Weakness

Criteria: As a condition of receiving Federal awards, non-Federal entities agree to comply with laws, regulations, and the provisions of grant agreements and contracts, and to maintain internal controls to provide reasonable assurance of compliance with these requirements.

The Recreation Resources Management grant requires that recipients track all program income earned and deduct such income from expenditures incurred prior to calculation of the Federal portion of the program's expenditures.

Condition: The City did not deduct \$330,819 of program income earned during the year ended December 31, 2020 from the Lake Nighthorse facility which is funded by this grant. This resulted in the City over reporting \$165,409 of expenditures to this grant in both their requests for reimbursement and Federal financial reports. Further, we note that this issue was present in each of the prior two periods.

Cause: Controls over program income, reporting, and cash management were not properly designed to ensure that program income was properly deducted from the program's expenditures, thus resulting in material noncompliance.

Effect: The City could over-report Federal expenditures, and as a result be reimbursed for expenditures that are not allowable, under this grant.

Questioned Costs: \$390,420 (\$165,409 from 2020, \$127,680 from 2019, and \$97,331 from 2018)

Context/Sampling: We tested 100% of the program income earned for this grant noting that none of the income was accounted for correctly.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend management revisit controls over the program income, reporting and cash management processes to correct this matter and ensure no further findings occur.

Views of Responsible Officials: Agree