

City of Colorado Springs

Single Audit Reports

Year Ended December 31, 2016

City of Colorado Springs
Year Ended December 31, 2016

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City of Colorado Springs
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

Cluster/Program	Direct/Pass-Through	Federal Agency/Pass-through Entity	Identifying Grant Number	CFDA Number	Amount	Amount Paid to Subrecipient
U.S. DEPARTMENT OF AGRICULTURE						
Emergency Watershed Protection Program	Direct	U.S. Department of Agriculture	68-8B05-16-203	10.923	\$ 69,900	\$ -
Emergency Watershed Protection Program	Direct	U.S. Department of Agriculture	68-8B05-16-203	10.923	174,407	-
Emergency Watershed Protection Program	Direct	U.S. Department of Agriculture	68-8B05-16-203	10.923	747,050	-
Emergency Watershed Protection Program	Direct	U.S. Department of Agriculture	68-8B05-16-203	10.923	66,536	-
Emergency Watershed Protection Program Total					<u>\$ 1,057,893</u>	<u>\$ -</u>
Total U.S. Department of Agriculture					<u>\$ 1,057,893</u>	<u>\$ -</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
CDBG - Entitlement Grants Cluster						
Community Development Block Grants/Entitlement Grants	Direct	U.S. Department of Housing and Urban Development	B-14-MC-08-0004	14.218	\$ 2,666,992	\$ 2,421,130
Community Development Block Grants/Entitlement Grants	Direct	U.S. Department of Housing and Urban Development	B-15-MC-08-0004	14.218	1,634,262	389,619
Community Development Block Grants/Entitlement Grants	Direct	U.S. Department of Housing and Urban Development	B-16-MC-08-0004	14.218	640,094	145,727
CDBG - Entitlement Grants Cluster Total					<u>4,941,348</u>	<u>2,956,476</u>
Emergency Solutions Grant Program	Direct	U.S. Department of Housing and Urban Development	E-13-MC-08-0002	14.231	12,691	12,691
Emergency Solutions Grant Program	Direct	U.S. Department of Housing and Urban Development	E-14-MC-08-0002	14.231	24,634	24,634
Emergency Solutions Grant Program	Direct	U.S. Department of Housing and Urban Development	E-15-MC-08-0004	14.231	123,798	121,875
Emergency Solutions Grant Program	Direct	U.S. Department of Housing and Urban Development	E-16-MC-08-0004	14.231	13,889	-
Emergency Solutions Grant Program	Pass-Through	Colorado Department of Local Affairs	H6ESG15935	14.231	117,017	117,017
Emergency Solutions Grant Program Total					<u>292,029</u>	<u>276,217</u>
Home Investment Partnerships Program	Direct	U.S. Department of Housing and Urban Development	M-14-MC-08-0203	14.239	269,390	215,325
Home Investment Partnerships Program	Direct	U.S. Department of Housing and Urban Development	M-15-MC-08-0203	14.239	314,122	50,761
Home Investment Partnerships Program	Direct	U.S. Department of Housing and Urban Development	M16-MC080203	14.239	135,565	14,324
Home Investment Partnerships Program Total					<u>719,077</u>	<u>280,410</u>
Total U.S. Department of Housing and Urban Development					<u>\$ 5,952,454</u>	<u>\$ 3,513,103</u>

City of Colorado Springs
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2016

Cluster/Program	Direct/Pass-Through	Federal Agency/Pass-through Entity	Identifying Grant Number	CFDA Number	Amount	Amount Paid to Subrecipient
U.S. DEPARTMENT OF JUSTICE						
Missing Children's Assistance	Direct	U.S. Department of Justice	2015-MC-FX-K030	16.543	\$ 356,459	\$ 88,564
Missing Children's Assistance Total					356,459	88,564
Crime Victim Assistance	Pass-Through	Colorado Department of Public Safety	2013-VA-14-003160-04	16.575	68,042	-
Crime Victim Assistance Total					68,042	-
Public Safety Partnership and Community Policing Grants	Direct	U.S. Department of Justice	2014CKWX0005	16.710	60,254	-
Public Safety Partnership and Community Policing Grants	Direct	U.S. Department of Justice	2014UMWX0087	16.710	120,292	-
Public Safety Partnership and Community Policing Grants Total					180,546	-
Edward Byrne Memorial Justice Assistance Grant Program	Direct	U.S. Department of Justice	2013-DJ-BX-0302	16.738	16,277	-
Edward Byrne Memorial Justice Assistance Grant Program	Direct	U.S. Department of Justice	2014-DJ-BX-0817	16.738	136,438	-
Edward Byrne Memorial Justice Assistance Grant Program	Direct	U.S. Department of Justice	2015-DJ-BX-0137	16.738	90,538	-
Edward Byrne Memorial Justice Assistance Grant Program	Direct	U.S. Department of Justice	2015-DE-BX-K059	16.738	600,000	-
Edward Byrne Memorial Justice Assistance Grant Program	Pass-Through	Colorado Department of Public Safety	2015-MU-BX-0390	16.738	24,603	-
Edward Byrne Memorial Justice Assistance Grant Program	Pass-Through	Colorado Department of Public Safety	2015-MU-BX-0390	16.738	15,814	-
Edward Byrne Memorial Justice Assistance Grant Program	Direct	U.S. Department of Justice	2016-DJ-BX-0164	16.738	3,819	-
Edwards Byrne Memorial Justice Assistance Grant Program Total					887,489	-
DNA Backlog Reduction Program	Direct	U.S. Department of Justice	2014-DN-BX-0095	16.741	49,813	-
DNA Backlog Reduction Program	Direct	U.S. Department of Justice	2015-DN-BX-0025	16.741	44,795	-
DNA Backlog Reduction Program Total					94,608	-
Paul Coverdell Forensic Sciences Improvement Grant Program	Direct	U.S. Department of Justice	2013-CD-BX-0057	16.742	77,214	-
Paul Coverdell Forensic Sciences Improvement Grant Program	Direct	U.S. Department of Justice	2015-CD-BX-0014	16.742	160,829	-
Paul Coverdell Forensic Sciences Improvement Grant Program Total					238,043	-
Equitable Sharing Program	Direct	U.S. Department of Justice	Not Provided	16.922	82,296	-
Equitable Sharing Program Total					82,296	-
Total U.S. Department of Justice					\$ 1,907,483	\$ 88,564

City of Colorado Springs
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2016

Cluster/Program	Direct/Pass-Through	Federal Agency/Pass-through Entity	Identifying Grant Number	CFDA Number	Amount	Amount Paid to Subrecipient
U.S. DEPARTMENT OF TRANSPORTATION						
Airport Improvement Program	Direct	U.S. Department of Transportation	3-08-00100-058-2015	20.106	\$ 10,515,632	\$ -
Airport Improvement Program	Direct	U.S. Department of Transportation	3-08-0010-059-2016	20.106	9,431,430	-
Airport Improvement Program Total					19,947,062	-
Highway Planning and Construction Cluster						
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	BRO M240-117 (16986)	20.205	465,455	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	ACQ M240-134 (18525)	20.205	26,004	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	SHO M240-145 (19270)	20.205	24,753	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	TAP M240-149 (19811)	20.205	22,072	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	STU M240-154 (19809)	20.205	2,571	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	STU M240-150 (19601)	20.205	18,784	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	STU M240-152 (19794)	20.205	319,812	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	STU M240-160 (19945)	20.205	721,915	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	BRO M240-155 (19810)	20.205	538,422	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	STU M240-148 (19450)	20.205	2,552,357	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	AQC M240-125 (17429)	20.205	729	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	AQC M240-133 (18373)	20.205	122,581	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	SAR M240-143 (19251)	20.205	219,911	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	SAR M240-139 (18673)	20.205	184,342	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	STU M240-153 (19808)	20.205	144,149	-
Highway Planning and Construction	Pass-Through	Colorado Department of Transportation	STE M240-094 (15540)	20.205	298,912	-
Highway Planning and Construction Cluster Total					5,662,769	-
Federal Transit Cluster						
Federal Transit - Formula Grants	Direct	U.S. Department of Transportation	CO-90-X204	20.507	499,906	-
Federal Transit - Formula Grants	Direct	U.S. Department of Transportation	CO-90-X205	20.507	3,537,664	-
Federal Transit - Formula Grants	Direct	U.S. Department of Transportation	CO-95-X019	20.507	131,793	-
Federal Transit - Formula Grants	Direct	U.S. Department of Transportation	CO-95-X019	20.507	4,196	-
Federal Transit - Formula Grants	Direct	U.S. Department of Transportation	CO-95-X019	20.507	5,690	-
Federal Transit - Formula Grants	Direct	U.S. Department of Transportation	CO-95-X023-00	20.507	13,631	-
Federal Transit - Formula Grants	Direct	U.S. Department of Transportation	CO-95-X023-00	20.507	1,589	-
Federal Transit - Formula Grants	Direct	U.S. Department of Transportation	CO-95-X023-00	20.507	2,242	-
Federal Transit - Formula Grants	Direct	U.S. Department of Transportation	CO-95-X023-00	20.507	1,642	-
Federal Transit - Formula Grants	Direct	U.S. Department of Transportation	CO-95-X023-00	20.507	179,033	-
Federal Transit - Formula Grants	Direct	U.S. Department of Transportation	CO-95-X023-00	20.507	1,139	-
Bus and Bus Facilities Formula Program	Direct	U.S. Department of Transportation	CO-34-0006-00	20.526	318,868	-
Federal Transit Cluster Total					4,697,393	-

City of Colorado Springs
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2016

Cluster/Program	Direct/Pass-Through	Federal Agency/Pass-through Entity	Identifying Grant Number	CFDA Number	Amount	Amount Paid to Subrecipient
Transit Services Programs Cluster						
Enhanced Mobility of Seniors and Individuals with Disabilities	Direct	U.S. Department of Transportation	CO-16-X044-00	20.513	5,866	5,866
Enhanced Mobility of Seniors and Individuals with Disabilities	Direct	U.S. Department of Transportation	CO-16-X047-00	20.513	184,360	61,913
Transit Services Programs Cluster Total					<u>190,226</u>	<u>67,779</u>
Highway Safety Cluster						
State and Community Highway Safety	Pass-Through	Colorado Department of Transportation	411007073	20.600	65,677	-
State and Community Highway Safety	Pass-Through	Colorado Department of Transportation	411007955	20.600	4,800	-
National Priority Safety Programs	Pass-Through	Colorado Department of Transportation	411010652	20.616	9,114	-
National Priority Safety Programs	Pass-Through	Colorado Department of Transportation	PO411008642	20.616	5,326	-
Highway Safety Cluster Total					<u>84,917</u>	<u>-</u>
Total U.S. Department of Transportation					<u>\$ 30,582,367</u>	<u>\$ 67,779</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS						
VA Grants for Adaptive Sports Programs for Disabled Veterans and Disabled Members of the Armed Forces	Direct	U.S. Department of Veterans Affairs	2017-ASG-19	64.034	\$ 2,272	\$ -
VA Grants for Adaptive Sports Programs for Disabled Veterans and Disabled Members of the Armed Forces Total					<u>2,272</u>	<u>-</u>
Total U.S. Department of Veterans Affairs					<u>\$ 2,272</u>	<u>\$ -</u>
EXECUTIVE OFFICE OF THE PRESIDENT						
High Intensity Drug Trafficking Areas Program	Pass-Through	El Paso County Sheriff's Office	G14RM0034A	95.001	\$ 35,970	\$ -
High Intensity Drug Trafficking Areas Program Total					<u>35,970</u>	<u>-</u>
Total Executive Office of the President					<u>\$ 35,970</u>	<u>\$ -</u>

City of Colorado Springs
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2016

Cluster/Program	Direct/Pass-Through	Federal Agency/Pass-through Entity	Identifying Grant Number	CFDA Number	Amount	Amount Paid to Subrecipient
U.S. DEPARTMENT OF HOMELAND SECURITY						
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Pass-Through	Colorado Department of Public Safety	FEMA-DR-4229-CO:15-D4229-003	97.036	\$ 900,103	\$ -
Disaster Grants - Public Assistance (Presidentially Declared Disasters) Total					900,103	-
Hazard Mitigation Grant	Pass-Through	Colorado Department of Public Safety	HMGP4145-11P	97.039	2,986	-
Hazard Mitigation Grant	Pass-Through	Colorado Department of Public Safety	HMGP 4145 Project 78-R	97.039	246,010	-
Hazard Mitigation Grant	Pass-Through	Colorado Department of Public Safety	HMGP 4145 Project 66-R	97.039	169	-
Hazard Mitigation Grant	Pass-Through	Colorado Department of Public Safety	53-R	97.039	717,307	-
Hazard Mitigation Grant Total					966,472	-
Emergency Management Performance Grants	Pass-Through	Colorado Department of Public Safety	14EM-16-156	97.042	21,980	-
Emergency Management Performance Grants	Pass-Through	Colorado Department of Public Safety	15EM-16-83	97.042	15,037	-
Emergency Management Performance Grants					37,017	-
Pre-Disaster Mitigation	Pass-Through	Colorado Department of Public Safety	11PDM13COS	97.047	436,149	-
Pre-Disaster Mitigation Total					436,149	-
Homeland Security Grant Program	Pass-Through	Colorado Department of Public Safety	14SHS15SCR	97.067	175,222	-
Homeland Security Grant Program	Pass-Through	Colorado Department of Public Safety	15SHS16SCR	97.067	217,734	-
Homeland Security Grant Program	Pass-Through	Colorado Department of Public Safety	16SHS17SCR	97.067	118,471	-
Homeland Security Grant Program Total					511,427	-
Total U.S. Department of Homeland Security					\$ 2,851,168	\$ -
Total Federal Expenditures					\$ 42,389,607	\$ 3,669,446

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

(1) General

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the primary government of the City of Colorado Springs (the City) under programs of the federal government for the year ended December 31, 2016. The accompanying notes are an integral part of this Schedule. The City's reporting entity is defined in note I.A in the City's basic financial statements 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 this 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. The Schedule includes federally funded projects received directly from federal agencies and the federal amount of pass-through awards received by the City through the State of Colorado or other non-federal entities.

The City's basic financial statements include the operations of Colorado Springs Utilities (CSU), an enterprise fund of the City of Colorado Springs, which expended \$3,777,191 in federal awards, which are not included in the Schedule for the year ended December 31, 2016.

(2) Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. The City's summary of significant accounting policies is presented in note I.A to the City's basic financial statements for the year ended December 31, 2016. Such expenditures are recognized following, as applicable, the cost principles in OMB A-87 or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements or reports to federal agencies. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

(3) Revolving Loan Funds

The City has certain revolving loan funds as follows:

14.218 - Community Development Block Grant/Entitlement Grants	\$ 6,702,052
14.239 - HOME Investment Partnership Program	<u>14,471,658</u>
	<u><u>\$ 21,173,710</u></u>

These loans do not have continuing compliance requirements and have not been included in the accompanying Schedule.

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

Honorable Mayor and Members of City Council
and City Auditor
City of Colorado Springs
Colorado Springs, 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 basic 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 Colorado Springs (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 12, 2017. Our report includes reference to other auditors who audited the financial statements of the discretely presented component units, except the Colorado Springs Health Foundation and the Pikes Peak Regional Communications Network, and a reference to other auditors who audited the financial statements of Colorado Springs Utilities, presented as an enterprise fund, and the financial statements of Public Authority for Colorado Energy, presented as a blended component unit (enterprise fund), as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the discretely presented component units, except the Colorado Springs Health Foundation and the Pikes Peak Regional Communications Network, were not audited in accordance with *Government Auditing Standards*, nor was the financial statements of Public Authority for Colorado Energy, presented as a blended component unit.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the City's 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Honorable Mayor and Members of City Council
and City Auditor
City of Colorado Springs

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 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. 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 City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

We also noted certain matters that we reported to the City's management in a separate letter dated June 12, 2017.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The City's responses were 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Colorado Springs, Colorado
June 12, 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

Honorable Mayor and Members of City Council
and City Auditor
City of Colorado Springs
Colorado Springs, Colorado

Report on Compliance for Each Major Federal Program

We have audited the City of Colorado Spring'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.

The City's basic financial statements include the operations of the Colorado Springs Utilities (CSU), presented as an enterprise fund, which received \$3,777,191 in federal awards, which are not included in the City's schedule of expenditures of federal awards for the year ended December 31, 2016. Our audit, described below, did not include the operations of CSU because the enterprise fund engaged other auditors to perform an audit in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts 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.

Honorable Mayor and Members of City Council
and City Auditor
City of Colorado Springs

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 of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditor's results section of the accompanying Schedule 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 our 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. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-003 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit are described in the accompanying schedule of findings and questioned costs and/or 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.

Honorable Mayor and Members of City Council
and City Auditor
City of Colorado Springs

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.

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 12, 2017, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. Other auditors audited the financial statements of the discretely presented component units, except the Colorado Springs Health Foundation and the Pikes Peak Regional Communications Network and other auditors audited the financial statements of Colorado Springs Utilities, presented as an enterprise fund, and the financial statements of Public Authority for Colorado Energy, presented as a blended component unit (enterprise fund). 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 basic 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.

BKD, LLP

Colorado Springs, Colorado
June 12, 2017

City of Colorado Springs
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2016

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? Yes No

7. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
14.239	Home Investment Partnerships Program
20.106	Airport Improvement Program

8. The threshold to distinguish between Type A and Type B programs was \$1,271,688.

9. Auditee qualified as low-risk auditee? Yes No

City of Colorado Springs
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2016

Section II – Financial Statement Findings

Reference Number	Findings
2016-001	<p>Finding: Construction in Progress Reconciliation</p> <p>Criteria or Specific Requirement: An effective financial reporting system is an important component of an internal control system that helps ensure transactions are recorded accurately and timely, thereby providing accurate financial data. Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>Under accounting principles generally accepted in the United States of America (US GAAP), capital assets should be accounted for at their historical cost and in the period in which the asset is acquired. Accounting guidance that addresses the proper recognition and accounting of capital assets includes Governmental Accounting Standards Board (GASB) Statement No. 34, <i>Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments</i> and various implementation guidance issued by GASB.</p> <p>Condition: Construction in process additions erroneously including the following approximate amounts:</p> <ul style="list-style-type: none">a) \$164,000 of equipment was recorded twice – once in a separate equipment capital asset account in addition to being recorded in construction in process.b) \$557,000 of 2017 capital asset additions were improperly included in 2016 construction in process additions.c) \$126,000 of costs that should have been expensed were capitalized into construction in process. <p>Context: Timely and accurate financial statements are critical to managing operations, communicating financial position and changes in net position and demonstrating compliance with laws and regulations to interested parties.</p> <p>Cause: The construction in process project build sheets did not agree to amounts recorded in the general ledger, throughout the year due to certain Airport accounting department vacancies. Additionally, construction in process is reconciled at year-end when other capital asset additions and disposals are recorded in the general ledger, resulting in a difference between the general ledger and the capital asset subledger.</p> <p>Effect: Audit adjustments totaling approximately \$847,000 were proposed and recorded in the financial statements to adjust the cost of construction in process additions to the actual amount incurred as of year-end.</p>

City of Colorado Springs
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2016

**Reference
Number**

Findings

Recommendation: We recommend the Airport ensure that construction in process is reconciled more frequently than at year-end, including tracking additions and transfers. We also recommend the Airport accounting personnel continue working with project management from inception to hone tracking mechanisms, which are useful for both program financial assurance and financial reporting.

Views of responsible officials and planned corrective actions: Agree - see separate report for planned corrective action.

City of Colorado Springs
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2016

Reference Number	Findings
2016-002	<p>Finding: Insurance Settlement</p> <p>Criteria or Specific Requirement: An effective financial reporting system is an important component of an internal control system that helps ensure transactions are recorded accurately and timely, thereby providing accurate financial data. Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>Under accounting principles generally accepted in the United States of America (US GAAP), revenue transactions should be recorded to the accounting records when they are realizable and measurable. Accounting guidance that addresses the proper recognition and accounting of insurance recoveries includes Governmental Accounting Standards Board (GASB) Statement No. 42, <i>Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments</i> and various implementation guidance issued by GASB.</p> <p>Condition: The insurance settlement related to the resulting terminal roof and skylight damage from a hailstorm was not recorded to the accounting records as of year-end. Per the guidance in GASB Statement No. 42, insurance recoveries are to be treated as a separate transaction from the expense incurred to repair the asset, which may result in the revenue and expense transaction being recognized in separate accounting periods.</p> <p>Context: The insurance settlement was agreed to by the Airport and insurance company in December 2016, with payment received in early January 2017, prior to any repairs being incurred. Timely and accurate financial statements are critical to managing operations, communicating financial position and changes in net position and demonstrating compliance with laws and regulations to interested parties.</p> <p>Cause: The Airport desired to record the revenue in the same period as the expense to repair the capital assets, which is expected to occur in fiscal year 2017. However, GASB Statement No. 42 requires a receivable and therefore, revenue to be recorded when the settlement becomes measurable and realizable. The receivable was measurable and realizable in December 2016 upon settlement by the Airport and the insurance company.</p> <p>Effect: An audit adjustment of approximately \$3,623,000 was proposed and recorded in the financial statements to record an insurance receivable and related revenue to the actual amount realizable as of year-end.</p>

City of Colorado Springs
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2016

**Reference
Number**

Findings

Recommendation: We recommend the Airport implement a procedure to identify atypical transactions, such as a one-time insurance recovery, in order to properly record revenue transactions when the amounts are measurable and realizable.

Views of responsible officials and planned corrective actions: Agree - see separate report for planned corrective action.

City of Colorado Springs
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2016

Section III – Federal Award Findings and Questioned

Reference Number	Findings
2016-003	<p>Finding: Special Tests – Environmental Reviews</p> <p>CFDA No. 14.218 Community Development Block Grants/Entitlement Grants Department of Housing and Urban Development, Award Number - B-16-MC-08-0004, Award Year - 2016 Department of Housing and Urban Development, Award Number - B-15-MC-08-0004, Award Year - 2015 Department of Housing and Urban Development, Award Number - B-14-MC-08-0004, Award Year - 2014</p> <p>Criteria or Specific Requirement: Projects are required to have an environmental review unless they meet specified criteria which would exempt or exclude them from the requirement. Per the City’s internal controls, environmental reviews are to be performed and reviewed prior to start of the project.</p> <p>Condition: An environmental review selected for testing was properly performed prior to the start date of the project, but was not reviewed until after the project was completed, violating the City’s control structure.</p> <p>Questioned Costs: N/A</p> <p>Context: We tested 7 of 64 projects requiring environmental reviews during the year ended December 31, 2016, noting the issue above on one of the projects. The sampling method was not, and was not intended to be, statistically valid.</p> <p>Effect: By not performing the proper review process, the City is in violation of its own policies and controls and risks an improperly documented environmental review being submitted under the grant.</p> <p>Cause: Due to staff turnover this review was overlooked by the City, and was therefore not completed until a later date. Additionally, there was no management oversight to ensure this review occurred timely.</p> <p>Identification as a repeat finding: N/A</p>

City of Colorado Springs
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2016

Reference Number	Findings
	<p>Recommendation: We recommend that appropriate management oversight be utilized to ensure all reviews are completed in accordance with City policies and controls.</p> <p>Views of responsible officials and planned corrective actions: Agree - See separate report for planned corrective action.</p>

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

Reference Number	Name of Federal Program or Cluster	CFDA No.	Summary of Finding	Status
2015-001	N/A – CAFR	N/A – CAFR	<i>Internal Controls Over Accounts Payable</i> Recommendation that the City take immediate steps to strengthen internal controls over the accounts payable process, either by physically segregating duties amongst personnel or by utilizing system controls to strengthen this process.	Implemented
2015-002	Community Development Block Grants/Entitlement Grants	14.218	<i>Reporting</i> Recommendation that formal policies and procedures relating to administrative duties and required reports be implemented by management, which could include a calendar of report due dates, to help ensure the continuity of processes in the event of staff turnover. Furthermore, the City should begin submitting the SF-425 reports going forward.	Implemented
2015-003	Home Investment Partnerships Program	14.239	<i>Cash Management</i> Recommendation that the City implement formal policies and procedures relating to the application of program income prior to new draw downs. Controls should be designed and implemented to help ensure the continuity of processes in the event of staff turnover.	Implemented
2015-004	Home Investment Partnerships Program	14.239	<i>Special Tests and Provisions</i> Recommendation that the City implement formal policies and procedures relating to the housing quality standards requirement, including tracking and performance of the required inspections. Additionally, recommend strengthening management	Implemented

City of Colorado Springs
Summary Schedule of Prior Audit Findings (Continued)
Year Ended December 31, 2016

Reference Number	Name of Federal Program or Cluster	CFDA No.	Summary of Finding	Status
			oversight of this requirement to help ensure the continuity of processes in the event of staff turnover.	
2015-005	Community Development Block Grants/Entitlement Grants	14.218	<i>Procurement, Suspension and Debarment</i> Recommendation that the City implement policies and procedures to ensure that the EPLS be reviewed and documented prior to awarding a contract. Performance of such reviews should be documented by including supporting documentation in the contract file. Additionally, the contract file should be reviewed to ensure compliance with these procedures.	Implemented
2015-006	Community Development Block Grants/Entitlement Grants and Home Investment Partnerships Program	14.239	<i>Reporting</i> Recommendation that the City implement formal internal controls surrounding the secondary review of reports which are submitted to federal agencies to ensure accuracy of such reports.	Implemented