

TOWN OF LYONS, COLORADO
FEDERAL AWARDS REPORT IN ACCORDANCE
WITH THE UNIFORM GUIDANCE

December 31, 2017

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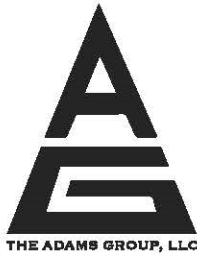
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Office of the State Auditor

July 27, 2018

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CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' 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**

To the Board of Trustees
Town of Lyons, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lyons, Colorado (Town), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated July 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Lyons, Colorado's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Lyons, Colorado's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Lyons, Colorado'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

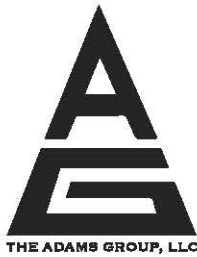
As part of obtaining reasonable assurance about whether the Town of Lyons, Colorado's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct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

Purpose of this Report

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

The Adams Group, LLC

July 13, 2018
Denver, Colorado



THE ADAMS GROUP, LLC

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY UNIFORM GUIDANCE AND ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees
Town of Lyons, Colorado

Report on Compliance for Each Major Federal Program

We have audited the Town of Lyons, Colorado's (Town) 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 Town of Lyons, Colorado's major federal programs for the year ended December 31, 2017. The Town of Lyons, Colorado's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and question 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Lyons, Colorado'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 Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Other Matters

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

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

Report on Internal Control Over Compliance

Management of the Town of Lyons, Colorado 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 Town of Lyons, Colorado'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 Town of Lyons, Colorado'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. 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, each major fund, and the aggregate remaining fund information of the Town of Lyons, Colorado as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town of Lyons, Colorado's basic financial statements. We issued our report thereon dated July 13, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Adams Group, LLC

July 13, 2018
Denver, Colorado

TOWN OF LYONS, COLORADO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Pass-through Entity Identifying Number	Total Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Homeland Security				
Passed through Colorado Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR 4145	\$ 3,885,711	\$ -
Hazard Mitigation Grant	97.039	MG4145045214	246,655	-
Total U.S. Department of Homeland Security			4,132,366	-
U.S. Department of Commerce				
Direct programs				
Investments for Public Works and Economic Development Facilities (Economic Development Cluster)	11.300	LY 05-01005734	124,088	-
Total U.S. Department of Commerce			124,088	-
U.S. Department of Housing and Urban Development				
Passed through the Colorado Department of Local Affairs				
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	CDBG-DR-P15-043	45,546	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	CDBG-DR-WI-17-109	102,706	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	CDBG-DR-P16-009	128,699	-
			276,951	-
Passed through the Boulder County Collaborative				
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	B-13-DS-08-001 INF-00023	1,175,594	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	B-13-DS-08-001 INF-00027	97	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	B-13-DS-08-001 INF-00021	205,097	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	B-13-DS-08-001 INF-00028	3,093	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	B-13-DS-08-001 INF-00010	371	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	B-13-DS-08-001 INF-00039	129,968	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	B-13-DS-08-001 INF-00022	253	-
Hurricane Sandy Community Development Block Grants - Disaster Recovery Grants (CDBG-DR)	14.269	B-13-DS-08-001 INF-000XX	13,863	-
			1,528,336	-
Total U.S. Department of Housing and Urban Development (CDBG - Disaster Recovery Grants- Pub. L. No. 113-2 Cluster)			1,805,287	-
U.S. Department of Agriculture				
Passed through the Colorado Water Conservation Board				
Emergency Watershed Protection Program	10.923	CTGG1-2017-1708	488,045	-
Total U.S. Department of Agriculture			488,045	-
U.S. Department of Interior				
Passed through the Colorado Department of Natural Resources				
Colorado Parks and Wildlife				
Sport Fish Restoration (Fish and Wildlife Cluster)	15.605	17-FIF-96491	93,200	-
Total U.S. Department of Interior			93,200	-
Total Federal Financial Assistance			\$ 6,642,986	\$ -

TOWN OF LYONS, COLORADO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Town of Lyons, Colorado government (the Town). All federal financial assistance received by the Town directly from federal agencies, as well as federal financial assistance passed through other government agencies, including the State of Colorado, is included on the schedule.

NOTE B – BASIS OF PRESENTATION

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

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. See Note 1 of the financial statements for summary of significant accounting policies.

The Town has not elected to use the ten percent de Minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D – SIGNIFICANT ESTIMATE

As discussed in Note 1 to the financial statements, the allowability of federal grant expenditures is a significant estimate. Due to the nature of the grants and the fact that these grants are relatively new both to the Town and the State of Colorado, the amounts which will ultimately be reimbursed by the State of Colorado is an estimate which may have a significant effect on future year's financial results. The Town believes that all costs which have been reported on this schedule are allowable.

TOWN OF LYONS, COLORADO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: *unmodified opinion*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ No

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weakness(es)? ☐ Yes ☒ No

Type of auditor's report issued on compliance for major programs: *unmodified opinion*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major programs:

CFDA Number 97.036
U.S. Department of Homeland Security:
Disaster Grants – Public Assistance
(Presidentially Declared Disasters)

CFDA Number 14.269
U.S. Department of Housing and Urban
Development:
Hurricane Sandy Community
Development Block Grant Disaster
Recovery Grants (CDBG-DR)

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

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

TOWN OF LYONS, COLORADO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended December 31, 2017

Section II Findings - Financial Statement Findings

None

TOWN OF LYONS, COLORADO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended December 31, 2017

Section III Findings – Federal Award Findings and Questioned Costs		
Reference Number	Finding	Questioned Costs
<u>Section III Findings – Federal Award Findings and Questioned Costs</u>		
Finding:	2017-001	
Major programs:	Disaster Grants-Public Assistance (Presidentially Declared Disasters) Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	
CFDA numbers:	97.036 14.269	
Type of Finding:	Allowable costs/cost principles	
Criteria:	The Uniform Guidance, Section 200.303 <i>Internal Controls</i>, requires the non-Federal entity to establish and maintain effective internal controls over Federal awards that provide reasonable assurance that awards are being managed in compliance with Federal statutes, regulations and the terms and conditions of the Federal award. The Uniform Guidance, Section 200.405 <i>Allocable costs</i>, discusses the criteria for allocating costs to federal grants. The Uniform Guidance, Section 200.402 <i>Composition of Costs</i> indicates “The total cost of a federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits.”	
Condition:	For 9 of 80 transactions tested (40 for Disaster Grants-Public Assistance (Presidentially Declared Disasters and 40 for Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)), the transaction was not approved by either a member of the Finance staff or the Town Manager. For 7 of 80 transactions we were not able to determine how the invoices were allocated to the grant. In one instance, the grant was overcharged, amounts were refunded, but the amounts refunded were less than the amounts charged. For 1 of 80 transactions tested, for the Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR) costs may not have been allowable. For one transaction, the vendor, the City’s attorney provided a \$2,000 discount. None of the discount was applied to transactions from the grant. It was not apparent from the invoice how the \$2,000 was allocated. For other attorney invoices reviewed, the discount amount was indicated on the invoice.	

TOWN OF LYONS, COLORADO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended December 31, 2017

Section III Findings – Federal Award Findings and Questioned Costs		
Reference Number	Finding	Questioned Costs
<u>Section III Findings – Federal Award Findings and Questioned Costs</u>		
Finding:	2017-001 (Continued)	
	Cause: The Finance personnel who would approve transactions either worked part-time or were on leave with medical issues.	
	The majority of these invoices, seven, were for professional fees which were allocated to various flood related and non-flood related accounts. One line on the invoice maybe allocated to various projects. For one invoice a portion of the retainage was paid and we were unable to determine why from the invoice documentation.	
	Again, this invoice was for professional fees which were allocated to various flood related and non-flood related accounts.	
Effect:	The approval of invoices is an important control related to allowable costs. Unallowable costs could have been charged to the grant because transactions were not properly reviewed.	
	The Town cannot support that amounts, mostly professional fees, were properly allocated to the grant.	
	The Town may have been reimbursed for ineligible costs.	
Questioned Costs:	None Reported	
Repeat finding from:	N/A	
Views of responsible officials:	Agree-Management has prepared a separate corrective action plan.	

TOWN OF LYONS, COLORADO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended December 31, 2017

Section IV Prior Year Federal Award Findings and Questioned Costs

2016-A Capital Asset Accounting-Material Weakness

Initial Year Finding
Occurred: 2016

Finding Summary: The Town did not appropriately review the various construction projects which had been accumulated since 2014 to determine which had been completed or if the costs included were appropriate. As a result a material audit adjustment was necessary to recognize the completed assets in both the enterprise funds as well as the government wide presentation.

Status: The Town's finance office reviewed with various departments but specifically the public works department to determine if the CIP carried forward from 2016 was still in process or if aspects of it had been completed. Based on those determinations the projects were removed from the CIP and appropriately included in the various capital asset categories which were reviewed prior to audit.

Fully Implemented

2016-B Enterprise Fund Inventories-Significant Deficiency

Initial Year Finding
Occurred: 2016

Finding Summary: The Town failed to provide adequate documentation related to its inventories.

Status: The Town completed a physical inventory at the end of 2017 including the various enterprise funds as well as the Parks maintenance area. The various items were reviewed and costed based on last invoice price and appropriate adjustments were made to the various funds.

Fully Implemented