
TOWN OF PAONIA, COLORADO
*FEDERAL AWARDS REPORTS
IN ACCORDANCE WITH THE
SINGLE AUDIT ACT AND
THE UNIFORM GUIDANCE
DECEMBER 31, 2017*

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**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***

Honorable Mayor and the Members
of the Town Council
Town of Paonia, 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 and each major fund of the Town of Paonia, Colorado (the 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 September 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 preceding 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 were not identified.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Town'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.

RubinBrown LLP

September 27, 2018



**Independent Auditors' 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**

Honorable Mayor and the Members
of the Town Council
Town of Paonia, Colorado

Report On Compliance For Each Major Federal Program

We have audited the Town of Paonia, Colorado's (the Town) compliance with the types of compliance requirements described in the Office of Management and Budget's *OMB Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended December 31, 2017. The Town's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town'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* (the 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 Program

In our opinion, the Town 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, 2017.

Report On Internal Control Over Compliance

Management of the Town 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'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's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-001 to be a material weakness.

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.

The Town's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Town's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

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 and each major fund of the 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. We issued our report thereon dated September 27, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 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.

RubinBrown LLP

September 27, 2018

TOWN OF PAONIA, COLORADO

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2017**

Federal Agency Name	Federal CFDA Number	Pass-Through Agency	Federal Program Title	Other Identification Number	Total	Passed Through To Subrecipients
Department Of Public Health & Environment	66.468	Colorado Water Resources And Power Development Authority	Capitalization Grant For Drinking Water State Revolving Funds	Project: 130200D D14A212 Drinking Water Revenue Bonds 2014 Series A	\$ 853,849	\$ —
Total Federal Awards					\$ 853,849	\$ —

TOWN OF PAONIA, COLORADO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2017

1. **Organization**

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of the Town of Paonia, Colorado (the Town), for the year ended December 31, 2017. All federal awards received directly from federal agencies, as well as federal awards passed through other governmental agencies, are included on the schedule.

2. **Basis Of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget's Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3. **Loans Balances Outstanding**

As of December 31, 2017, the Town had \$242,912 remaining in principal balances from federal loan programs.

4. ***De Minimis* Cost Rate**

As of December 31, 2017, the Town had not elected to use the 10% *de minimis* indirect cost rate allowed in the Uniform Guidance, Section 414.

TOWN OF PAONIA, COLORADO

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended December 31, 2017**

Section I - Summary Of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes _____ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with CFR 200.516(a)? X yes _____ no

Identification of major programs:

CFDA

Number Name Of Federal Program Or Cluster

66.468 Capitalization Grants for Drinking Water State Revolving Funds

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

Auditee qualified as low-risk auditee? _____ yes X no

Section II - Financial Statement Findings

None noted

TOWN OF PAONIA, COLORADO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(CONTINUED)* For The Year Ended December 31, 2017

Section III - Federal Award Findings And Questioned Costs

Finding 2017-001 Material Weakness On Compliance And Internal Controls Over Compliance For Procurement, Suspension And Debarment

CFDA 66.468: Capitalization Grant for Drinking Water State Revolving Funds
Federal Agency: U.S. Department of Public Health and Environment

Pass-Through Entity: Colorado Water Resources and Power Development Authority

Criteria Or Specific Requirement: Per the Procurement, Suspension, and Debarment compliance requirement, nonfederal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System maintained by the General Services Administration, collecting a certification from the entity or adding a clause or condition to the covered transaction with that entity (2 CFR Section 180.300).

Condition: The Town did not have documented evidence of performing debarment checks during the fiscal year over its vendors.

Cause: The Town's control over debarment of vendors is performed by Town personnel reviewing federal databases of debarred vendors to ensure its vendors receiving federal money are not debarred; however, there was no documentation of the Town performing these checks during the year under audit.

Questioned Costs: Not applicable

Context: No payments were made to debarred vendors; however, no documented control over debarment of vendors was noted during testing. A nonstatistical sample of three vendors out of seven were found to not have documented debarment checks performed by the Town during the year under audit.

Effect: The Town's documented procurement controls do not comply with the Procurement, Suspension, and Debarment compliance requirements, and therefore, suspended vendors could be contracted with if the debarment checks are not being performed and documented.

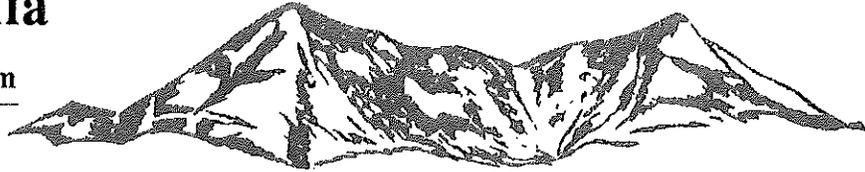
TOWN OF PAONIA, COLORADO

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For The Year Ended December 31, 2017**

Identification As A Repeat Finding: N/A

Recommendation: We recommend that the Town implement a documented version of its debarment checks in order to substantiate that the control was performed during any given year of a federal program.

Views Of Responsible Officials And Planned Corrective Actions: The Town of Paonia should take all necessary steps to fully comply with OMB Uniform Guidance regarding the Single Audit provision, specifically for the Procurement, Suspension, and Debarment compliance requirement. Management of the Town of Paonia recognizes its responsibility for follow up and corrective actions on all audit findings and as such is submitting the following as our corrective action plan for the current year (FY2017) audit finding.



TOWN OF PAONIA

SCHEDULE OF FINDINGS AND QUESTIONS COSTS (CONTINUED)

For The Year Ending December 31, 2017

Corrective Action Plan

As a result of the findings of the Single Audit, the Town submits this corrective action plan that will address each audit finding included in the FY'2017 (and any subsequent years) auditor's reports:

The Town of Paonia shall create and implement a written policy for any future projects, a double check process where the Finance Officer shall search the data base and document that search to ensure the Town of Paonia solicits offers from and awards contracts to only presently responsible contractors. The contractor [must] be trusted to perform in accordance with contract requirements, governing law, and overall, to conduct itself ethically. The Town will review the debarment list by checking the Excluded Parties List System maintained by the General Services Administration, collecting a certification from the entity or adding a clause or condition to the covered transaction with the entity.

The Finance Officer will then provide the documentation to the Town Administrator for review and signature approval.