

City of Aurora, Colorado

Single Audit Reports

Year Ended December 31, 2012

City of Aurora, Colorado
Year Ended December 31, 2012

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City of Aurora, Colorado
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture</u>			
Passed through from the Colorado Department of Public Health and Environment:			
Child and Adult Care Food Program	10.558	FLA CFP11000001	\$ 13,918
Total 10.558			<u>13,918</u>
Total Department of Agriculture			<u>13,918</u>
<u>Department of Commerce</u>			
Direct payments:			
Public Works and Economic Development Cluster			
Economic Adjustment Assistance	11.307	N/A	347,598
Total Public Works and Economic Development Cluster			<u>347,598</u>
Total Department of Commerce			<u>347,598</u>
<u>Department of Housing and Urban Development</u>			
Direct payments:			
Housing Counseling Assistance Program	14.169	N/A	12,029
Total 14.169			<u>12,029</u>
CDBG - Entitlement Grants Cluster			
Community Development Block Grants	14.218	N/A	3,896,245
ARRA - Community Development Block Grant Entitlement Grants (CDBG-R)	14.253	N/A	141,867
Total CDBG - Entitlement Grants Cluster			<u>4,038,112</u>
CDBG - State-Administered Small Cities Program Cluster			
Passed through from the Colorado Department of Local Affairs:			
Community Development Block Grants/State's Program	14.228	H0NSP09301	67,760
Total CDBG - State-Administered Small Cities Program Cluster			<u>67,760</u>
Direct payments:			
Emergency Shelter Grants Program	14.231	N/A	117,736
Total 14.231			<u>117,736</u>
HOME Investment Partnerships Program	14.239	N/A	1,031,130
Total 14.239			<u>1,031,130</u>
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	N/A	15,899
Total 14.257			<u>15,899</u>
Total Department of Housing and Urban Development			<u>5,282,666</u>
<u>Department of Interior, Fish and Wildlife Service</u>			
Fish and Wildlife Cluster			
Passed through from the Colorado Department of Natural Resources:			
Sport Fish Restoration Program	15.605	FIF-1674-10	88,000
Total Fish and Wildlife Cluster			<u>88,000</u>
Total Department of Interior, Fish and Wildlife Service			<u>88,000</u>

The accompanying notes are an integral part of this schedule.

City of Aurora, Colorado
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Department of Interior, National Park Service</u>			
Passed through from the Colorado Historical Society:			
Historic Preservation Fund Grants-In-Aid	15.904	CO 11 011	10,683
Total 15.904			<u>10,683</u>
Total Department of Interior, National Park Service			<u>10,683</u>
<u>Department of Justice</u>			
Direct payments:			
MGTF Support - FBI/DEA (Memorandum of Understanding)	16.000	N/A	40,828
Total 16.000			<u>40,828</u>
Passed through from the Colorado Division of Criminal Justice:			
Antiterrorism Emergency Reserve	16.321	2013-RF-GX-1	92,351
Total 16.321			<u>92,351</u>
Passed through from the City of Colorado Springs, Colorado:			
Missing Children's Assistance	16.543	none	2,905
Total 16.543			<u>2,905</u>
Direct payments:			
Edward Byrne Memorial Formula Grant Program	16.579	N/A	128,855
Total 16.579			<u>128,855</u>
Passed through from the Colorado Division of Criminal Justice:			
State of Colorado Response to Aurora Theater Shooting (Aurora Theater Shooting)	16.580	12-DG-01-8-1	202,477
State of Colorado Response to Aurora Theater Shooting (Aurora Theater Shooting; Aurora Fire Dept.)	16.580	12-DG-01-5-1	6,853
Total 16.580			<u>209,330</u>
Passed through from the Colorado Department of Justice:			
Project Safe Neighborhoods	16.609	10-CP-04-2-3	23,715
Project Safe Neighborhoods	16.609	11-CP-04-2-3	41,408
Total 16.609			<u>65,123</u>
Direct payments:			
Public Safety Partnership and Community Policing Grants (Secure Our Schools)	16.710	N/A	6,950
Total 16.710			<u>6,950</u>
Justice Assistance Grant Program Cluster			
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	N/A	220,206
Passed through from the Colorado Division of Criminal Justice:			
Edward Byrne Memorial Justice Assistance Grant Program (Youth Development and Gang Reduction)	16.738	11-DJ-3-44-1	120,536
Edward Byrne Memorial Justice Assistance Grant Program (Power Up Youth Intervention)	16.738	11-DJ-5-45-2	110,146
Edward Byrne Memorial Justice Assistance Grant Program (Theater Shooting)	16.738	2008-DJ-BX-0028	7,050
Edward Byrne Memorial Justice Assistance Grant Program (Theater Shooting)	16.738	2009-DJ-BX-0002	4,907
Subtotal Justice Assistance Grant Program Cluster	16.738		<u>462,845</u>
Passed through from the Colorado Department of Justice:			
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	2009-SU-B9-0020	15,779
Subtotal Justice Assistance Grant Program Cluster	16.803		<u>15,779</u>

The accompanying notes are an integral part of this schedule.

City of Aurora, Colorado
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>Department of Justice (continued)</u>			
Direct payments:			
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government	16.804	N/A	234,778
Subtotal Justice Assistance Grant Program Cluster	16.804		234,778
Total Justice Assistance Grant Program Cluster			713,402
Total Department of Justice			1,259,744
<u>Department of Transportation</u>			
Highway Planning and Construction Cluster			
Passed through from the Colorado Department of Transportation:			
Highway Planning and Construction (Mississippi/Potomac Improvements)	20.205	M055-024	258,340
Highway Planning and Construction (Colfax/17th Avenue Earmark Supplemental)	20.205	STU2254-083 (17719)	78,100
Highway Planning and Construction (Colfax/17th Avenue, Phase 2, STIP 1)	20.205	ES6 2254-079 (17308)	1,052,987
Tollgate Bridge TIP Grant	20.205	STE M055-029 (18452)	141,302
Total Highway Planning and Construction Cluster			1,530,729
Highway Safety Cluster			
Passed through from the Colorado Department of Transportation:			
State and Community Highway Safety Cluster (Twist Campaign)	20.600	211012274	19,614
State and Community Highway Safety Cluster (Aurora Speed Campaign)	20.600	211014205	62,221
State and Community Highway Safety Cluster (Aurora PD Distracted Driver Campaign)	20.600	211017437	3,186
State and Community Highway Safety Cluster (Pedestrian Education and Safety Campaign)	20.600	211017436	4,376
Total 20.600			89,397
Child Safety and Child Booster Seat Incentive Grants	20.613	211014702	50,933
Total 20.613			50,933
Total Highway Safety Cluster			140,330
Total Department of Transportation			1,671,059
<u>Department of Treasury</u>			
Passed through from the Colorado Housing and Finance Authority:			
Neighborhood Reinvestment Corporation (DBA Neighbor Works America)	21.000	PL 110-161:95X1350	33,673
Neighborhood Reinvestment Corporation (DBA Neighbor Works America)	21.000	PL 112-1095X1350	41,893
Neighborhood Reinvestment Corporation (DBA Neighbor Works America)	21.000	PL 112-55:95X1350	15,595
Total 21.000			91,161
Total Department of Treasury			91,161
<u>National Endowment for the Arts</u>			
Passed through from the Colorado Office of Economic Development:			
Promotion of the Arts_ Partnership Agreements	45.025	13000000065	2,266
Total 45.164			2,266
Direct payments:			
Promotion of the Humanities_Public Programs (John Adams Unbound)	45.164	N/A	268
Total 45.164			268
Total National Endowment for the Arts			2,534

The accompanying notes are an integral part of this schedule.

City of Aurora, Colorado
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Small Business Administration</u>			
Passed through from the South Metro Denver Chamber of Commerce:			
Small Business Development Centers	59.037	2011 #603001-Z-0012	19,400
Total 59.037			<u>19,400</u>
Total Small Business Administration			<u>19,400</u>
<u>Environmental Protection Agency</u>			
Direct payments:			
Brownfields Training, Research and Technical Assistance Grant and Cooperative Agreements	66.814	none	90,543
Total 66.814			<u>90,543</u>
ARRA - Brownfields Assessment and Cleanup Cooperative Agreements	66.818	none	116,426
Total 66.818			<u>116,426</u>
Total Environmental Protection Agency			<u>206,969</u>
<u>Department of Energy</u>			
Direct payments:			
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis (Local Energy Assurance)	81.122	none	7,687
Total 81.122			<u>7,687</u>
ARRA - Energy Efficiency and Conservation Block Grant (EECBG)	81.128	none	409,256
Total 81.128			<u>409,256</u>
Total Department of Energy			<u>416,943</u>
<u>Department of Health and Human Services</u>			
Passed through from the Colorado Department of Health Care Policy and Financing:			
State Health Access Program (Program Eligibility Application Kit - PEAK)	93.256	UHA-CCR12000003	1,630
Total 93.256			<u>1,630</u>
Passed through from the Tri County Health Department:			
ARRA - Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement	93.724	CPPW2010-014	159,715
Total 93.724			<u>159,715</u>
Total Department of Health and Human Services			<u>161,345</u>
<u>Office of National Drug Control Policy</u>			
Direct payments:			
High Intensity Drug Trafficking Assistance	95.001	N/A	1,103,360
Passed through from City of Denver High Intensity Drug Trafficking Assistance:			
Front Range Task Force	95.001	none	11,230
Computer Forensics Labs	95.001	none	16,876
Fugitive Location and Apprehension	95.001	none	17,263
Total 95.001			<u>1,148,729</u>
Total Office of National Drug Control Policy			<u>1,148,729</u>
<u>Department of Homeland Security</u>			
Direct payments:			
National Counter Terrorism 2011	97.000	none	15,630
Total 97.000			<u>15,630</u>

The accompanying notes are an integral part of this schedule.

City of Aurora, Colorado
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Department of Homeland Security (continued)</u>			
Passed through from West Metro Fire Rescue:			
National Urban Search and Rescue Response System	97.025	EMW-2007-CA-0644	15,061
Total 97.025			<u>15,061</u>
Passed through from the Colorado Department of Local Affairs:			
Emergency Management Performance Grants (11 CO LEMS grant)	97.042	12EM1L82	56,723
Emergency Management Performance Grants (12 CO LEMS grant)	97.042	12EM1382	11,221
Total 97.042			<u>67,944</u>
Passed through from Arapahoe County:			
Interoperable Emergency Communications Grant Program (IECGP)	97.055	10IEC11NCR	7,263
Total 97.055			<u>7,263</u>
Passed through from the Colorado Department of Public Safety, Division of Homeland Security:			
Homeland Security Grant Program (MMRS 09)	97.067	99MMRS10CNA	28,827
Homeland Security Grant Program (MMRS 10)	97.067	10MMR11NCA	161,253
Homeland Security Grant Program (MMRS 11)	97.067	11MMR12NCA	53,213
Homeland Security Grant Program (SHSP)	97.067	9SHS12NCA	50,000
Passed through from Arapahoe County:			
Homeland Security Grant Program (SHSP)	97.067	9SHS10NCR	1,877
Total 97.067			<u>295,170</u>
Total Homeland Security			<u>401,068</u>
Total Federal Awards			<u>\$ 11,121,817</u>

The accompanying notes are an integral part of this schedule.

City of Aurora, Colorado
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

(1) General

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the primary government of the City of Aurora, Colorado (the City). The City's reporting entity is defined in note 1 in the City's basic financial statements for the year ended December 31, 2012.

The information in the accompanying schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 schedule of expenditures of federal awards 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.

(2) Basis of Accounting

Expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis. The City's summary of significant accounting policies is presented in note 1 to the City's basic financial statements.

(3) Federal CFDA Number

Certain grant programs have not been assigned Catalog of Federal Domestic Assistance (CFDA) numbers by the federal government, or the numbers are not obtainable. These programs are identified in the accompanying schedule by the federal agency number followed by three zeros (for example, 16.000).

(4) Pass-through Grantor's Number

For federal awards expended by the City as a subrecipient, the accompanying schedule includes identification of the pass-through grantor and the identifying number assigned to the grant by the pass-through grantor where the pass-through grantor has supplied such number to the City.

(5) Revolving Loan Funds – Not Subject to Compliance

The City has certain revolving loan funds, which were originally financed with federal financial assistance through the Community Development Block Grant Program, the HOME Investment Partnerships Program and the Brownfields Program. The outstanding balances of these loan funds at December 31, 2012, were \$3,894,532 for the Community Development Block Grant Program, \$12,917,671 for the HOME Investment Partnerships Program, and \$886,495 for the Brownfields Program. Since there are no continuing compliance requirements other than continued loan payments, the outstanding loan balances have not been included in the accompanying schedule of expenditures of federal awards.

City of Aurora, Colorado
Notes to Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

(6) Revolving Loan Funds – Subject to Further Compliance

The City has certain revolving loan funds, which were originally financed from the Department of Commerce - Economic Development Administration through the City's Gifts and Grants Fund and are included in the Schedule of Expenditures of Federal Awards. The outstanding balances at December 31, 2012, were \$260,128 in loans outstanding and \$87,470 in funds available to lend. The 2012 expenditures for administrative costs were \$0 and the 2012 loan write-offs were \$0. There are no City match requirements.

(7) Payments to Subrecipients

Of the federal expenditures presented in the accompanying schedule of expenditures of federal awards, the City provided federal awards to subrecipients as follows:

Program	CFDA Number	Amounts Provided to Subrecipient
Community Development Block Grant	14.218	\$ 168,880
Emergency Shelter Grant Program	14.231	109,521
Home Investment Partnership	14.239	227,810
ARRA - Community Development Block Grant	14.253	137,795
Edward Byrne Memorial Justice Assistance Grant	16.738	184,711
ARRA - Brownsfield Assessment and Cleanup		
Cooperative Agreements	66.818	96,426
		\$ 925,143

**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
City of Aurora, Colorado
Aurora, 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 Aurora, Colorado (the City) as of and for the year ended December 31, 2012, 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 20, 2013, which contained "Emphasis of Matters" paragraphs regarding a change in reporting entity, a change in accounting principles, and correction of an error and also contained a reference to the report of other auditors. Other auditors audited the financial statements of the General Employee's Retirement Plan (GERP) and Havana Business Improvement District (BID), 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 separately by those auditors for GERP. The financial statements of BID, the discretely presented component unit included in the financial statements, were not audited in accordance with *Government Auditing Standards*.

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, 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 deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all material weaknesses or significant deficiencies have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Honorable Mayor and Members of City Council
City of Aurora, Colorado

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 City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-01 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-02 to be a significant deficiency.

Compliance

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*.

City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Other Matter

The purpose of this communication 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 compliance. This communication 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

Denver, Colorado
June 20, 2013

**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance in Accordance with
OMB Circular A-133 and Schedule of Expenditures of Federal Awards**

Honorable Mayor and Members of City Council
City of Aurora, Colorado
Aurora, Colorado

Report on Compliance for Each Major Federal Program

We have audited the compliance of the City of Aurora, Colorado (the City) with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. 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

Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance with those requirements.

Honorable Mayor and Members of City Council
 City of Aurora, Colorado

***Basis for Qualified Opinion on CDBG – Entitlement Grants Cluster
 and Justice Assistance Grant Program Cluster***

As listed in the chart below and described in the accompanying schedule of findings and questioned costs, the City did not comply with certain requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to these programs.

CFDA #	Program	Compliance Requirement	Type of Opinion	Finding Number
14.218, 14.253	CDBG - Entitlement Grants Cluster	Reporting	Qualified	2012-05
16.738, 16.803, 16.804	Justice Assistance Grant Program Cluster	Equipment and Real Property Management	Qualified	2012-06

***Qualified Opinion on CDBG - Entitlement Grants Cluster
 and Justice Assistance Grant Program Cluster***

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the 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, 2012.

Unmodified 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 of findings and questioned costs for the year ended December 31, 2012.

Other Matter

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-03 and 2012-04. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above (internal control). In planning and performing our audit of compliance, we considered the City’s internal control over compliance with the 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 OMB Circular A-133, 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.

Honorable Mayor and Members of City Council
City of Aurora, Colorado

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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-05 and 2012-06 to be material weaknesses.

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. We consider the findings and questioned costs as item 2012-03 and 2012-04 to be significant deficiencies.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 20, 2013, which contained an unmodified opinion 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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Honorable Mayor and Members of City Council
City of Aurora, Colorado

Other Matter

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

BKD, LLP

Denver, Colorado
June 20, 2013

City of Aurora, Colorado
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Section I – Summary of Auditor’s Results

Financial Statements

1. Type of auditor’s report issued:
 Unmodified Qualified Adverse Disclaimed

2. Internal control over financial reporting:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

3. Noncompliance material to the financial statements noted? Yes No

Federal Awards

4. Internal control over major programs:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

5. Types of auditor’s report issued on compliance for major programs:
 Unmodified Qualified Adverse Disclaimed

Unqualified for all major programs except for CDBG Entitlement Grants Cluster and Justice Assistance Grant (JAG) Program Cluster, which are qualified.

City of Aurora, Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

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

7. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
11.307	Public Works and Economic Development Cluster
14.218, 14.253	CDBG - Entitlement Grants Cluster, including ARRA
16.738, 16.803, 16.804	Justice Assistance Grant (JAG) Program Cluster, including ARRA
81.128	ARRA - Energy Efficiency and Conservation Block Grant (EECBG)
97.067	Homeland Security Grant Program

8. Dollar threshold used to distinguish between Type A and Type B: \$333,655.

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

City of Aurora, Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

Section II – Financial Statement Findings

**Reference
Number**

Finding

2012-01 Finding: Accounting for Capital Assets

Criteria or Specific Requirement: 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 and then depreciated over their estimated useful life unless the asset is land which is not depreciated. Accounting guidance that addresses the proper recognition and accounting of capital assets includes Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and various implementation guidance issued by the GASB.

Condition: The following conditions were noted:

- Within the City of Aurora, all street infrastructure additions are donated (from developers) to the City and their value calculated upon donation based on the number of miles. In the current year it was discovered that donated streets added to the City were treated as land, and as such, not being depreciated, which resulted in a prior period adjustment of \$401,368,726.
- As part of our capital asset testing, we performed procedures over capitalized interest noting that within the Water fund, capitalized interest was incorrectly calculated. The issue resulted from the City performing the calculation using the incorrect accounting methodology as described under GASB 62.

Context: The total governmental activities capital assets, net of accumulated depreciation, as of December 31, 2012 totaled approximately \$2.26 billion. The total business-type activities capital assets, net of accumulated depreciation, as of December 31, 2012 totaled approximately \$1.53 billion.

Effect: A prior period adjustment was made for the road infrastructure depreciation and a passed adjustment for the capitalized interest was proposed but not recorded in the financial statements.

Cause: The primary cause for the prior period adjustment was that these assets were not marked within the capital asset system to be depreciated. Additionally, for the capitalized interest error, projects were completed in the previous year which no longer required separate capitalization and methodology was not changed in current year. Furthermore, the calculation was not reviewed in detail after performed and recorded.

Recommendation: We recommend that a detailed review of all capital assets held by the City be completed within the capital assets tracking system, as the City plans to change useful lives of assets in future years. Additionally, we recommend the accounting staff receive training on the requirement to capitalize the interest related to the construction projects.

City of Aurora, Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

**Reference
Number**

Finding

Views of Responsible Officials and Planned Corrective Actions:

Response:

Street Infrastructure Depreciation

The capital assets have been reviewed and all assets requiring depreciation are being depreciated as of the 2012 audit year.

Staff identified this issue during preparation for the 2012 audit. Accounting standards required infrastructure to be added to capital assets and depreciated beginning in 2002. The streets were not marked to be depreciated in the fixed asset system at that time. The amount represents 10 years of depreciation that is now corrected.

This is a noncash expense. It is only reflected in the full accrual city-wide statements. This does not affect the general fund financial statements or require any changes to budget.

Capitalized Interest on Capital Assets

Management agrees accounting staff will review and be trained as necessary on the capitalized interest component of fixed assets. This is a process that is only done once a year and can be confusing.

Person(s) responsible for implementing:

Jo Ann Giddings, Controller

Implementation date:

Changes for the depreciation have already been implemented, capitalized interest will be implemented during the preparation of the 2013 audit.

City of Aurora, Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

Reference Number	Finding
2012-02	<p>Finding: Financial Information Preparation</p> <p>Criteria or Specific Requirement: Accounting tasks such as cross-checks and reviews play a key role in proving the accuracy of accounting data and financial information that comprise interim and year-end financial statements and other financial reports on a timely basis.</p> <p>Condition: During our review of the financial information, primarily the Single Audit and SCFD audit, we encountered numerous problems with the timeliness and / or accuracy of the information provided. Multiple requests to responsible departments to provide and correct information were required to be made during the audit process.</p> <p>Effect: By not providing accurate information in a timely manner, proper quality control and preliminary reviews cannot be adequately performed. Failure to review information creates a situation where errors made by the preparer may go undetected.</p> <p>Cause: During 2012, the City was impacted as a result of retirements and extended absences. There were new personnel in key positions, and some personnel were absent due to illness and personal reasons.</p> <p>Recommendation: We recommend that the City continue to strengthen its existing review policies and procedures to ensure the timely and accurate presentation of financial information necessary for external reporting.</p> <p>Views of Responsible Officials and Planned Corrective Actions:</p> <p><i>Response:</i> The finance department will evaluate current practices as it relates to overall coordination of financial reporting. Specifically, the SCFD and Single Audit have unique issues that will be addressed separately.</p> <p>SCFD - In reviewing information in systems currently in place, some information will be gathered through the system rather than through manual processes that have been used in the past. This should speed up the process for gathering information needed for the audit. Staff will commit to faster response time to auditors. Finance and SCFD staff will meet more often in order to provide more accurate information to the auditors.</p> <p>Single Audit - The Finance Director will meet with the executive team, department directors and key department personnel regarding single audit timelines. A schedule will be prepared and communicated to all personnel involved in the single audit to meet required deadlines. Department personnel will commit to responding timely to auditor request to avoid auditors having leave the city audit due to not having information needed for field work.</p> <p><i>Person(s) responsible for implementing:</i> Jason Batchelor, Finance Director.</p> <p><i>Implementation date:</i> Process will be communicated immediately to appropriate departments and staff. New process will be used for the 2013 audit.</p>

City of Aurora, Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
2012-03	<p>Finding: Reporting</p> <p>CFDA No. 11.307 Economic Adjustment Assistance Department of Commerce, Award Number - FLA CFP11000001, Award Year - 1996</p> <p>Criteria or specific requirement: Per 13 CFR sections 307.14(a) and (c), a Revolving Loan Fund (RLF) recipient shall submit a semi-annual report (ED-209) and a Revolving Loan Fund Income and Expense Statement (ED-209I) if the recipient is using either fifty percent or more of RLF for administrative costs in a six month period. The U.S. Office of Management and Budget (OMB) Circular A-133, <i>Compliance Supplement</i>, requires that all reports for Federal awards include the activity of the reporting period, be supported by applicable accounting or performance records, be mathematically accurate, and be fairly presented in accordance with program requirements.</p> <p>Condition: The RLF Semi-Annual Report (ED-209) reports misreported \$889 and the RLF Income and Expense Statement (ED-209I) misreported \$49,287.</p> <p>Questioned Costs: None</p> <p>Context: We tested the March and September RLF Semi-Annual Financial (ED-209) and RLF Income and Expense Statement (ED-209I) reports submitted to the Department of Commerce.</p> <p>Effect: Inaccurate information was reported to the awarding agency.</p> <p>Cause: Lack of detailed review by someone other than the preparer resulted in inaccurate information being submitted to the awarding agency. In addition, one person was responsible for accumulating the information and submitting reports.</p> <p>Recommendation: We recommend that a detailed review of reports be performed by someone other than the preparer prior to reports being submitted. The detailed review should include agreeing amounts and other information reported to supporting records and documentation of this review should be maintained with the supporting documents used to prepare the report.</p>

City of Aurora, Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

**Reference
Number**

Finding

Views of Responsible Officials and Planned Corrective Actions:

Response:

The City has implemented the following processing, review and reporting process to ensure reporting accuracy.

A) New Loan Management Software: In 2012, the City has acquired a new loan management software, Portfol, that has been designed to assist with ED-209 and ED-209I reporting. Our previous loan management system required transcribing loan data to a spreadsheet to act as a “bridge” to the various EDA RLF reporting systems. Now a single system will be used for loan management and EDA RLF reporting, eliminating a significant source of errors. The entire loan portfolio (both past and active loans) has been imported into the new system over the past 12 months and has been running parallel with the old loan system to ensure accuracy. The City will fully convert to the new system in July 2013.

B) Monthly Loan Payment Processing and Review: Check processing, posting and journal entries will now be managed directly by the Development Services Division and reviewed on a monthly basis. This will help ensure loan postings (principal, interest and fee splits) accurately correspond with actual loan terms. Starting July 2013, the following procedure will be implemented:

1. Invoices: Invoices go out monthly to borrowers with copies to cashier.
2. Check Deposit: Cashier receives all checks and deposits are made into “Other Income” account.
3. Copy of Receipt: Cashiers sends Development Services a receipt of each deposit with the following information: Borrower Name and/or Loan Number, Check Amount, Check Number.
4. Loan Payment Posting (Portfol): Upon receiving receipt from cashier, Development Services staff will post payment to loan according to loan terms.
5. Journal Entries: Following loan postings to Portfol, Development Services Staff will transfer funds from the “Other Income” account into the appropriate accounts for principal, interest and fees to match splits for each loan payment.
6. Monthly Review: On a monthly basis, Development Services Staff will review all journal entries in One Solution to match Portfol postings. The review will include: (1) Matching principal, interest and fee entries and totals; (2) Ensure “Other Income” zeroes out unless other income from inactive loans is received; (3) Ensure “Active Loans” Outstanding Principal Balance in Portfol matches One Solution’s balance.

C) Semi-Annual Reporting: The EDA RLF Program Manager will generate the Semi-Annual Reports (ED-209 and ED-209I) using Portfol. The report will be reviewed by another Development Services staff member to ensure all expenses and balances match the Budget-to-Actual for the closing month of the reporting period.

Person(s) responsible for implementing: Chad Argentar

Implementation date: July 2013

City of Aurora, Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

Reference Number	Finding
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2012-04 Finding: Special Tests and Provisions - Loan Requirements

CFDA No. 11.307 Economic Adjustment Assistance

Department of Commerce, Award Number - FLA CFP11000001, Award Year - 1996

Criteria or Specific Requirement: Economic Development Administration (EDA) requires all loans issued as part of a revolving loan fund (RLF) include standard loan documentation that at a minimum must include the following: loan application, loan agreement, board of directors meeting minutes approving the loan, promissory note, security agreements, deed of trust or mortgage (if applicable), agreement of prior lien holder (if applicable) and signed bank turn-down letter. In addition, documentation required by the EDA-approved RLF Plan should be maintained. Per the City of Aurora RLF Plan approved by the Loan Administration Board on July 1, 2008, there are annual loan requirements which must be met by the borrowers which include providing proof of insurance.

Condition: The loan file selected for testing was missing the signed loan agreement and insurance was not up-to-date.

Questioned Costs: None

Context: We selected one loan recipient to test out of the nine outstanding loans.

Effect: Inadequate supporting documentation was maintained for the loan recipient.

Cause: Lack of annual review of loan files

Recommendation: We recommend that a detailed review of all loan recipient files be completed annually to ensure that all required documents are present. In addition, if documentation cannot be obtained from the loan recipient, supporting documentation of request attempts should be maintained within the loan file.

Views of Responsible Officials and Planned Corrective Actions:

Response: As part of the City's new loan processing procedures, the City will now be sending out monthly invoices to borrowers including reminders to provide necessary reports and documents per each loan agreement. Each summer, active loan files will be reviewed to identify any missing documentation.

Person(s) responsible for implementing: Chad Argentar

Implementation date: July 2013

City of Aurora, Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

Reference Number	Finding
2012-05	<p>Finding: Reporting</p> <p>CFDA No. 14.218, 14.253 CDBG - Entitlement Grants Cluster Department of Housing and Urban Development, Award Number - B-08-MN-08-0001, Award Year - 2009 Department of Housing and Urban Development, Award Number - B-09-MY-08-0002, Award Year - 2009 Department of Housing and Urban Development, Award Number - B-011-MN-08-0001, Award Year - 2011 Department of Housing and Urban Development, Award Number - B-11-MC-08-0002, Award Year - 2011 Department of Housing and Urban Development, Award Number - B-12-MC-08-0002, Award Year - 2012</p> <p>Criteria or Specific Requirement: The U.S. Office of Management and Budget (OMB) Circular A- 133, <i>Compliance Supplement</i> , requires that all reports for Federal awards include the activity of the reporting period, be supported by applicable accounting or performance records, be mathematically accurate, and be fairly presented in accordance with program requirements. Per 24 CFR sections 135.3(a), 135.90, and 570.607, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043).</p> <p>Condition: The SF-425 Federal Financial Reports for the first two quarters of the year were not submitted to the Department of Housing and Urban Development. In addition, the F-425 report submitted in the third quarter was prepared using incorrect methodologies and thus information submitted was incorrect. The HUD 60002 report was completed incorrectly for two of the nine lines required to be tested.</p> <p>Questioned Costs: None</p> <p>Context: We tested three SF-425 reports submitted to the Department of Housing and Urban Development for the first, second and third quarters of the fiscal year and the annual HUD 60002 report.</p> <p>Effect: The City did not fulfill the reporting requirements of the grant agreement and inaccurate information was reported to the awarding agencies.</p> <p>Cause: Turnover in the department resulted in deadlines being missed as they were unknown. In addition, lack of detailed review by someone other than the preparer and incorrect guidance from the local HUD office resulted in inaccurate information being submitted to the awarding agency. In addition, one person was responsible for accumulating information and submitting reports.</p> <p>Recommendation: We recommend that formal policies and procedures relating to administrative duties 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. In addition, a detailed review of reports should be performed by someone other than the preparer prior to reports being submitted. The detailed review should include agreeing amounts and other information reported to supporting records and documentation of this review should be maintained with the supporting documents used to prepare the report.</p>

City of Aurora, Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

**Reference
Number**

Finding

Views of Responsible Officials and Planned Corrective Actions:

Response:

First and second quarter 2012 SF425 reports were completed and submitted to HUD after the required date, but before the Single Audit was completed. A revised third quarter 2012 SF425 report has been submitted to HUD as well. Additional guidance has been received from HUD and we believe we have a better understanding of the SF425 report requirements going forward. Internal procedures have also been augmented to include a secondary review of the SF425 report by the Neighborhood Services accountant prior to it being sent to HUD on a quarterly basis.

Person(s) responsible for implementing:

Aaron Gagne, CD Manager and Jeff Hancock, CD Financial Analyst

Implementation date:

July 2013

City of Aurora, Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

Reference Number	Finding
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2012-06 Finding: Equipment and Real Property Management

CFDA No. 16.738, 16.803, 16.804 Justice Assistance Grant Program Cluster
Department of Justice, Award Numbers - 2009-DJ-BX-0678 & 2009-SB-B9-430, Award Year - 2009
Department of Justice, Award Number - 2010-DJ-BX-509, Award Year - 2010
Department of Justice, Award Number - 2011 -DJ-BX-2448, Award Year - 2011
Department of Justice, Award Number - 2012-DJ-BX-0460, Award Year - 2012
Passed-through Colorado Division of Criminal Justice,
Award Numbers - 11-DJ-3-44-1, 11-DJ-5-45-2 & 29-RI-5E-57-3, Award Year - 2011
Passed-through Colorado Division of Criminal Justice,
Award Numbers - 2008-DJ-BX-0028 & 2009-DJ-BX-0002, Award Year - 2012

Criteria or Specific Requirement: The A-102 Common Rule requires that equipment acquired with federal funds be used in the program for which it was acquired or, when appropriate, other federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition: Approximately \$213,250 of equipment purchased with federal funds from 2009-2012 was not recorded in the City's capital asset listing and thus was not adequately maintained, safeguarded nor included in the City's annual physical inventory.

Questioned Costs: None

Context: Total capital assets maintained by the program, including the equipment identified above, is \$813,913. We identified two assets in our allowable cost and activity testing that were not recorded on the City's capital asset listing. Upon further investigation, we found an additional three assets purchased in the current year and seven assets purchased in previous years that were not recorded on the City's capital asset listing. We also identified one asset that was not properly identified as being purchased with federal funds. All of the assets identified above were not included in the annual City-wide inventory report.

Effect: By not recording equipment purchased in the City's capital asset listing, the City could have a difficult time identifying, monitoring and disposing of equipment purchased with federal funds in accordance with federal requirements.

Cause: Frequent transfers of program managers and equipment between departments makes it difficult for the equipment to be tracked. In addition, a detailed review of account coding and supply accounts was not performed to identify capitalizable assets.

Recommendation: We recommend that a detailed review of nonpayroll expenditures be performed to help ensure that capitalizable expenditures are properly recorded within the capital asset listing and tracked by the City. Additionally, we suggest that an inventory be required before program managers transfer out of a department.

City of Aurora, Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

**Reference
Number**

Finding

Views of Responsible Officials and Planned Corrective Actions:

Response: The Grant Manager will review and sign off on all expenditures made with grant funds. Department staff will receive training from accounting staff on the coding for capital assets in the accounting system. This should help ensure future assets are recorded correctly.

In addition, a system will be put in place to track assets purchased with grant funds. This system will be verified against the accounting inventory that is completed annually.

Accounting will also review supply accounts in detail for miscoded assets.

Person(s) responsible for implementing: John Schneebeck, Manager Police Business Services and Jo Ann Giddings, Controller.

Implementation date: Implementation date for Police Business Services is July 2013 and implementation for accounting was March 31, 2013.

City of Aurora, Colorado
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2012

Reference Number	Summary of Finding	Status
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No matters are reportable.