



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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16-03 Colorado Springs Utilities 2015 Southern Delivery System Monitoring Report

February 2016

Purpose

The purpose of this audit was to monitor the major water construction project for Colorado Springs Utilities known as the Southern Delivery System (SDS). This audit included work in the areas of construction monitoring, project controls, procurement, and land acquisition.

Highlights

We conclude that the SDS project was being managed in accordance with the agreements in place. Internal controls relating to governance, reporting of costs, funding, and compliance with applicable laws, regulations, and governmental agreements were strong. The SDS project was in compliance with Colorado Springs Utilities' policies and procedures in all areas we tested. The acquisition of land complied with applicable standards and laws. There were no reportable recommendations for the 2015 audit period. We identified a commendable practice related to safety.

Spending for SDS was \$92 million in 2015, bringing project to date total to \$711 million. See page 2 of the report for more detailed financial information.

Accomplishments during 2015 that were reviewed by the auditors included:

- Completion of all raw water pipelines
- Mitigation efforts along Fountain Creek
- Planning and design work for the Phase 2 Upper Williams Creek
- Review of the warranty management program
- Achievement of critical "ready for water" milestones for the pump stations and water treatment plant

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Commendable Practice

The SDS program created a strong safety culture. At the time of our review, SDS' recordable incident, lost-time, and restricted rates were better (lower) than safety incident rates for the industry. We noted an intentional focus placed on safety. Safety was integrated into the solicitation process. Prior to construction, contractors were required to report to SDS leadership on their site-specific safety plan. During construction, the project team utilized not only the industry-standard daily/weekly briefings or toolbox meetings, but cross-promoted safety by using tools such as a safety council and rotating safety-walks. The commendable effort was demonstrated by a continued re-investment into the safety program. Processes were adjusted to reflect the changing state of the project.

Management Response

No management response was required.

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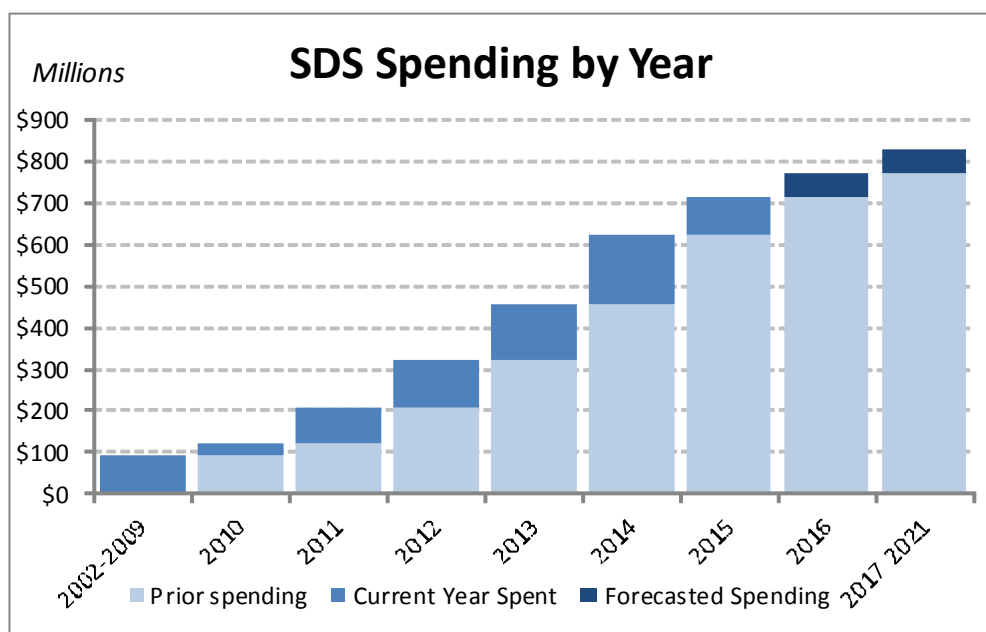
Project Accomplishments through 2015

At the conclusion of 2015, construction of the raw water pipelines were completed. Many pipelines remain covered under warranty. A warranty management program was developed to assist Colorado Springs Utilities with overseeing routine inspection to ensure equipment and materials remain free from defect after construction activities were completed. The water treatment plant contract contained two interim milestones designed to aid the contractor in successfully meeting substantial completion of the project in 2016. The contractor met these milestones by the end of 2015. The raw water pump station contract contained a single interim milestone and this was achieved as well. Substantial and final completion for all facilities is scheduled for early 2016. These activities were the main focus of the 2015 audit.

The OCA also continued to monitor non-pipeline projects such as the required mitigation on Fountain Creek and the conceptual design of the Upper Williams Creek Reservoir.

Project Cost Overview

In July 2009, the SDS construction budget was established for Phase 1 at \$880 million stated in April 2009 dollars. Accounting for inflation, the escalated budget equates to \$985 million after all direct project costs are paid through 2021. All budget and spending figures in the report refer to total project spending, including partner's share. The Colorado Springs Utilities share is approximately 95% of the total project spending.



As of December 31, 2015, the project team was forecasting the cost-to-complete would be \$825 million which is approximately \$160 million below the escalated budget. These savings represent realized and anticipated cost savings identified to date.

Actual spending in 2015 totaled \$92 million, bringing project to date spending to \$711 million. Of the \$711 million, \$523 million has been spent on engineering and construction costs, the remaining was used for non-construction program level costs such as land acquisition, permitting, and program management.

In 2015, OCA reviewed the impact of SDS on water rates. This was reported as a separate report, #15-27, and is available on the OCA website.

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Spending and other information is made available to the public via SDSwater.org. The numbers used in this report were from preliminary accounting reports for 2015. Final numbers will not be available until after publication. However, the accuracy of the SDS financial reports has been compared by the auditors to the financial system in the past with no discrepancies identified.

Background and Scope:

The Southern Delivery System (SDS) is a multi-year construction project of Colorado Springs Utilities designed to bring water from the Pueblo Reservoir to Colorado Springs and its project partners. The Office of the City Auditor (OCA) has been engaged to provide continuous monitoring of the project. Phase 1 of the multi-phase project includes all the components necessary to begin delivering water to the partner communities by April 2016. Phase 1 of SDS includes construction of approximately 50 miles of raw water pipelines, three pumping facilities to convey water, a new water treatment plant with a finished water pump station capable of treating up to 50 million gallons per day, and additions to finished water distribution pipelines.

The OCA provides real-time feedback to the SDS team on all issues identified. Because of this relationship, some issues have been identified and corrected prior to the issuance of this report.

Scope and Objective

The audit period for this report was calendar year 2015. Five previous reports have been issued on the SDS project covering periods 2002-2010, 2011, 2012, 2013, and 2014. All prior reports are available for review on the OCA website. This report will be referred to as the 2015 SDS Monitoring Report. The intent of the OCA is to provide an annual report on SDS until the project is completed.

The focus of this multi-year audit changes with the project's progression. The OCA's risk and fraud assessment for the audit is updated periodically as the project moves forward. The audit also considers SDS' alignment with the organization's strategic goals and objectives. During 2015, current-year activities such as commissioning, start-up, system integration, warranty program development, safety and general contract administration were reviewed. In addition to the review of current-year activities, we completed our routine monitoring with the following objectives in mind:

- Monitor the project for compliance with applicable laws, regulation, and governing agreements.
- Observe governance and communication to ensure information is shared appropriately, in a timely fashion, and contains sufficient information for decision making.
- Document and review project controls are in place and used to manage scope, schedule, and budget/cost including changes that occur related to these areas.
- Review financial records for compliance with Colorado Springs Utilities internal policies and procedures as well as for accuracy and completeness.
- Document and monitor project management and governance activities for effectiveness, efficiency, and accuracy.
- Monitor and review land acquisition for compliance with standards and laws.