



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

Denny L. Nester, City Auditor
MBA CPA CIA CFE CGFM

15-11 Annual External Report on Executive Limitations (4) Asset Protection and (7) Financial Conditions and Activities

April 2015

Purpose

The purpose of this review was to determine whether Colorado Springs Utilities and the Utilities Chief Executive Officer complied with the existing Executive Limitations (EL) 4, Asset Protection Policy Prohibitions 1,4,6,7 & 9, and all of EL-7, the Financial Condition and Activities Policy Prohibitions for the year ended December 31, 2014. In addition to verifying management's report, the Office of the City Auditor would report any known violations if such violations were not reported by management.

Highlights

We conclude the Chief Executive Officer was in compliance with policy Prohibitions EL-4 and EL-7 with the exception of EL-7 Prohibition 3 related to adjusted debt service coverage. Management previously reported non-compliance with this Prohibition to the Utilities Board on November 12, 2014, and again on March 12, 2015.

Our audit included the review of source documentation, detail tests of calculations, and other audit procedures as we deemed necessary. We verified the accuracy and reliability of the statements made along with information presented in the EL-4 and EL-7 reports prepared by Colorado Springs Utilities for the Utilities Board. We also relied on the major transaction systems audit work performed by our office, as well as the work of the external auditors.

The Utilities Board monitored the organization's operations through boundaries established by the Executive Limitations Policies. The Office of the City Auditor annually verifies compliance with Executive Limitations 4 and 7. Key components of the prohibitions were :

- Asset Protection (EL-4) - required that Colorado Springs Utilities have policies and procedures in place that ensure sound business practices to protect assets. These included purchasing and real estate regulations, investment procedures, bonding requirements for personnel with access to funds, and controls over receipt and disbursement of funds.

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Recommendations

No specific recommendations were made.

Management Response

No responses by Colorado Springs Utilities management were required.

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- Financial Condition and Activities (EL 7) - required compliance with financial measures such as cash on hand and debt service coverage. Additionally, this limitation required management to inform the Utilities Board of expenditures in excess of appropriations and major new or cancelled capital projects.

The following statements from management's fourth quarter report dated March 12, 2015, on non-compliance with Prohibition 3 are included below:

Observation 1: Failed to meet expectations in maintaining an Adjusted Debt Service Coverage above 2.0.

The CEO reports that, as of the year-end, the Adjusted Debt Service Coverage is below 2.00, which is in violation of this policy prohibition. Adjusted Debt Service Coverage is the amount of cash flow, after surplus payments to the municipal government, available to pay both principal and interest on Utilities' debt. Adjusted Debt Service Coverage is 1.89 at year-end.

Management explained the primary driver for lower than planned Adjusted Debt service Coverage was lower than anticipated water sales.

The audit was conducted in a manner that conforms with the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors.

City Council's Office of the City Auditor
City Hall ♦ 107 North Nevada Avenue ♦ Suite 200 ♦ Mail Code 1542
Colorado Springs CO 80901-1575
Tel 719-385-5991 ♦ Fax 719-385-5699 ♦ Reporting Hotline ♦ 719-385-2387
www.SpringsGov.com/OCA