



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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

## 18-01 Airport Administrative Costs Prorate Calculation

January 2018

### **Purpose**

The purpose of this audit is to gain an understanding of how the administrative prorate calculation is applied to the Colorado Springs Airport (Airport) and to evaluate that the Administrative Prorate is applied per guidance.

### **Highlights**

We conclude that the Administrative Costs Prorate (Admin Prorate) calculation for the Airport was reasonable with the exception of the charge for City Information Technology (IT) network support services. Additional research was needed to determine the appropriate charge for City IT network support services. The Admin Prorate calculation for IT services provided to the Airport was adjusted. Documentation was not available to support this adjustment as noted in Observation 1 of this report.

In addition to the direct cost incurred by departments and enterprises, the City incurred indirect support services costs that were allocated to departments and enterprises. These costs included legal, finance, human resources, facilities, and technology.

Annually, the City engaged a consultant to prepare a cost allocation for these indirect costs, referred to as the Admin Prorate. The primary purpose of the cost allocation plan was to identify the indirect costs that the general fund incurred supporting various operating departments, divisions, and funds. The information was then used to determine the cost of City general fund services utilized by enterprises so that enterprises can reimburse the general fund for those costs. Another objective of the cost allocation plan was to provide indirect cost data that can be used in federal grant applications.

Ordinance 10-27 approved by City Council in February 2010 prohibits loans, gifts, and subsidies between enterprises and the City. The Ordinance allows transfer of funds as reasonable consideration for providing services.

### **Management Response**

Management responses may be found at page two of this report.

### **Recommendations**

1. The City's Budget Department should work with the Consultant, City, and enterprise IT personnel to:

- Determine the percentage of Network Support provided by City IT to enterprises.
- Update the calculation and review the calculation annually.
- Retain documentation for key inputs and decisions.

2. The City's Budget Department should work with the Consultant, and City Departments which directly bill enterprises to:

- Identify all departments directly billing City enterprises.
- Ensure that City Departments correctly include Admin Prorate in direct billings.

City Council's Office of the City Auditor

City Hall, 107 North Nevada Ave. Suite 205, Mail Code 1542, Colorado Springs CO 80901-1575

Tel 719-385-5991 Fax 719-385-5699 Reporting Hotline 719-385-2387

[www.ColoradoSprings.gov](http://www.ColoradoSprings.gov)

# 18-01 AIRPORT ADMINISTRATIVE COSTS PRORATE CALCULATION

## **Observation 1**

- The Admin Prorate calculation included a 90% reduction for City Information Technology (IT) network support costs allocated to City enterprises, including the Airport.
- We were unable to identify documented support for this cost reduction, which has been in place for a number of years.

The City's IT Department provided network support services to enterprises including the Airport. Additionally, the Airport employed two staff members that performed IT related duties. It was not clear the percentage of Airport network support performed by these respective groups.

Analysis of City and enterprise job functions was required to determine the appropriate charge to the Airport and other enterprises for network support.

## **Management Response**

The Airport agrees with this recommendation. Airport management and staff will work with the City IT and Budget departments to determine an accurate calculation to prorate network support.

The City Budget Office agrees with the recommendation. The Budget Office will work with the Consultant and IT personnel to update the network support cost that is charged to the enterprise funds.

## **Recommendation**

The City's Budget Department should work with the Consultant, City, and enterprise IT personnel to:

- Determine the percentage of network support provided by City IT to the enterprises.
- Update the calculation to accurately charge enterprises for network support and review the calculation annually.
- Retain documentation for key inputs and decisions.

## **Observation 2**

- Some departments of the City, including the Office of the City Auditor (OCA), provided specialized services to enterprises. These departments were responsible to directly bill enterprises.
- Direct billing to enterprises for services provided by the OCA did not include Admin Prorate costs.

Admin Prorate was calculated by the consultant for all City departments. Then, the City Budget Office billed the Admin Prorate to enterprises.

Admin Prorate was not charged out to City departments since, in most cases the department budget was paid through the City General Fund. Therefore, any transfers related to Admin Prorate charges would be both to and from the City's General Fund.

To comply with Issue 300, Admin Prorate should be charged to enterprises. Our audit scope did not include review of all City departments that might perform services for enterprises.

## **Management Response**

Airport Management agrees with the recommendation. The Airport staff will assist as applicable for the correct Prorate charge to the Airport.

The City Budget Office agrees with the recommendation. The Budget Office will work with the Consultant and those Departments that direct-bill for services to make sure the billed charges appropriately account for Admin Prorate charges.

## **Recommendation**

The City's Budget Department should work with the Consultant and City departments to:

- Identify all departments providing specialized services for City enterprises.
- Ensure that City departments correctly charge Admin Prorate to the enterprises.