



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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## 18-32 City of Colorado Springs Financial Assurances

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### **Purpose**

The purpose of this audit was to verify that financial assurances were administered by the Planning and Development Department in accordance with City development policies and procedures. Additionally, we will try to identify areas for improved efficiency.

### **Highlights**

Due to current practices and software limitations, we could not complete a full review of financial assurance administration. We performed limited testing which indicated financial assurances obtained as part of the development process were properly supported and in compliance with policy. We identified five observations to strengthen the internal controls and the reporting process, as well as, to improve efficiency. Please see page two of this report for observation details.

Financial assurances were required under City Code part 11 section 7.7 and per instructions on the Public Works website as well as the Planning and Development website to guarantee required improvements prior to obtaining a building permit. Development policy required that City Engineering or Planning and Development determine the amount of financial assurance to be obtained for improvements such as streets, drainage, erosion control, and landscaping requirements. Available forms of assurances were letters of credit, bonds, cash deposits or certificates of deposit. The majority of assurances were in the form of letters of credit or bonds.

The financial assurance was obtained from the developer by City Engineering, the Planner, or the Engineering Technician. When required improvements were completed and inspected by the City, the financial assurance could be released to the developer. For streets and drainage installed by developers, a retainage balance was held until the warranty period expired and related inspection completed.

Administration of the financial assurances was managed by the Planning and Development Department. Planning and Development was responsible for collection and release of financial assurances, and to record all activity in a database. Our limited review focused on planning and development activities related to collection, release, and tracking of financial assurances.

### **Management Response**

Management was in agreement with our recommendations.

### **Recommendations**

Planning and Development should:

1. Obtain software with increased functionality, and identify interim tracking and reporting solutions.
2. Develop a review and reconciliation process for financial assurances that includes reports from planners and engineers.
3. Cross train another employee and create a desk manual for the Engineering Technician's duties.
4. Research and update financial assurance balances from prior years.
5. Obtain software that allows for duties to be better segregated, and identify interim solutions to improve segregation of duties.

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## **Observation 1**

Software utilized to track financial assurances did not interface with other planning systems, required duplicate entry, and had limited reporting capability.

New assurances obtained, changes to assurances, and assurance releases were tracked by the Engineering Technician using spreadsheets. The technician then entered each transaction recorded on the spreadsheet into a database. This database was accessed to determine if there were outstanding assurances before granting a building permit.

Due to system limitations, reports were not in place for the following:

- Detection of data entry errors or record deletion.
- Balancing and reconciliation of database activity.
- Management review of activity.

## **Management Response**

The department agrees that a software better suited for accounting of financial assurances should be used. The department will work with the IT Department to identify available software and seek funding to purchase selected software. Dependent on funding appropriation, selection, purchase and implementation of the software will be completed by the of Q1 2020. Please note that full implementation of the software will largely depend on funding and IT department resources.

## **Recommendation**

Planning and Development should purchase or develop software with enhanced functionality that, ideally, integrates with other aspects of the planning and development process.

In the interim, a solution should be developed to better facilitate tracking and reporting of financial assurances activity.

## **Observation 2**

Financial assurances activity was not summarized, reported, or periodically reconciled.

Financial assurances in the form of cash were deposited by City Finance. City Finance reconciled the escrow accounts to bank statements.

Reports were not available from planners and engineers that could be used to ensure financial assurances were correctly recorded by the Engineering Technician. Assurance amounts due could be recorded in error or could be changed without detection. As a result, inaccurate data could be used to determine that financial assurances were collected before building permits were issued.

## **Management Response**

The Department agrees that systematic reconciliation and review by Department management should occur; and that current software limits such capabilities. Department management will work with the Engineering Technician and other appropriate staff to establish and implement reconciliation and review procedures by the end of Q2 2019. These procedures may be modified if new a new software system is utilized.

## **Recommendation**

Planning and Development should:

- Develop a review and reconciliation process for financial assurance activity.
- Ensure management review of financial assurance activity.

### **Observation 3**

Desk manual procedures had not been developed for the Engineering Technician duties related to financial assurances. Another employee was not cross trained to perform the Engineering Technician role.

As part of our review, we prepared flowcharts of the Engineering Technician activities and identified potential process improvement efficiencies. The flowcharts were provided to Planning and Development. They could be used to develop desk procedures for the financial assurance activity.

### **Management Response**

The Department agrees. A standard operating procedures (SOP) manual will be completed by the end of Q2 2019. Along with the SOP, a back-up position for cross training will be assigned.

### **Recommendation**

Planning and Development should:

- Cross train another employee to perform the Engineering Technician duties.
- Develop a desk manual to document the process to record and track financial assurances within the Planning and Development Department.

### **Observation 4**

The financial escrow account balance as of June 4, 2018 was \$9.3 million, of which \$3.8 million was from 2015 or earlier.

Funds were required to be returned to developers when improvements were completed and inspections performed. Significant time and effort may be required to research older balances in escrow.

Our review did not include investigation of dated assurances.

### **Management Response**

Planning response: The Department agrees and will work with the recommended departments to resolve the issue by end of Q4 2019.

Finance response: We agree with the finding. The City Finance office will provide any assistance needed to Planning Department staff as they research non-current assurances and either return or other appropriate disposition. City Finance will work with the Planning Department to establish procedures for the on-going review and disposition of assurance.

### **Recommendation**

Planning and Development should:

- Research and identify a disposition for assurance balances that are no longer current.

## **Observation 5**

Segregation of duties conflicts existed in the financial assurance process.

Financial assurance requirements were determined by planners or engineers and provided to the Engineering Technician. For streets, the Engineering Technician calculated the amount due based on the plat provided. Limitations of the current software did not allow roles for determining the amount of the assurance to be separated from the recording and custody roles.

The Engineering Technician was responsible to obtain the letter of credit, bond or cash payment from the developer. In some cases, the assurance was obtained from the developer by the planner or engineering department staff.

## **Recommendation**

Planning and Development should:

- Obtain software that provides improved tracking, reporting and allows duties to be segregated.
- In the interim, the accuracy of the required assurance in the database should be independently verified. Additionally, developers should present checks to City Finance rather than to City Engineering or Planning and Development Departments.

## **Management Response**

Planning response: The Department agrees that a software system better suited for accounting of financial assurances should be used. The Department will work with the IT Department to identify available software and seek funding to purchase the selected software. Dependent on funding appropriation, selection, purchase and implementation of the software will be completed by the end of Q1 2020. Please note that full implementation of the software will largely depend on funding and IT department resources.

Finance response: We agree with this finding. City Finance, through its Accounts Receivable Division, will work with Planning Department staff to develop a process for the segregation of duties related to the acceptance of cash/check assurances. We will develop a process whereby the developer will stop in the Accounts Receivable Division to drop off their payments, providing a receipt for Planning Department verification and recording.