



# 2016 Office of the City Auditor Annual Accomplishments

**Date: March 16, 2017**

**To: President Bennett, President Pro-Tem Gaebler, City Council, and Citizens**

**Re: 2016 Accomplishments Report**

The Office of the City Auditor provides value to the citizens of Colorado Springs by providing an independent, objective, and comprehensive review of the operations of the City and its enterprises. We evaluate financial controls along with the efficiency and effectiveness of operations. We look for ways to improve systems and activities. The results of these reviews (audits) are reported publicly on our website.



*Denny L. Nester, City Auditor*

In 2016, the Office of the City Auditor took time to look more closely at its internal processes. We started process meetings where we examined some of our processes. These meetings did not necessarily result in changes that were obvious to the public, but they have helped us to strengthen our policies and procedures to ensure that quality audits are conducted and quality reports are issued. In December, we set aside one day as Quality Assurance Day. We used this day to review files to ensure we have “crossed the t’s and dotted the i’s”.

During 2016, one of the initial members of the Audit Committee - Bridget Toelle, completed her commitment and rolled off of the committee. Volunteers were sought and the Colorado Springs community responded with several qualified applicants. After interviewing many of the candidates, Brian McAllister, Ph.D., CPA was chosen to serve on the Audit Committee. Dr. McAllister is an Associate Professor and Faculty Director - Master of Science in Accounting at the University of Colorado at Colorado Springs.

Because of the high quality of applicant pool, the Audit Committee decided to expand to include two alternate members - William Paul Bradley, CPA and Welensky Nathan, CRCM, CCEP. Mr. Bradley is the Head of IT Risk - Director, Global Information Security Risk & Compliance for PricewaterhouseCoopers International Limited. Mr. Nathan is Vice President, Senior Compliance Consultant for Wells Fargo & Company. These alternate members attend the Audit Committee meetings and provide valuable input into committee discussions. In the future, the committee plans to fill vacancies using the alternate members, which will keep the committee working efficiently with minimum time needed to orient new members.

Citizens experienced a higher level of road maintenance in 2016 as the result of Ballot Measure 2C, which received voter approval in November 2015. With the increased funding from 2C, the quality of our roads has improved dramatically. The Office of the City Auditor was involved in calculating the level of effort that the City will be required to maintain - separate from the funding provided by the ballot measure. We also provided assistance to both the City and Colorado Springs Utilities as they coordinated their efforts to avoid utility repairs on newly paved roads. These efforts have been very successful with no utility repairs being needed on the newly paved roads in 2016.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Denny Nester".

Denny Nester, MBA, CPA, CIA, CFE, CGAP, CGFM  
City Auditor

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## City Council's Office of the City Auditor

*"...ensure management actions have been effectively implemented."*

The mission of the Office of the City Auditor is to provide City Council with an independent, objective, and comprehensive auditing program for operations of the City. Our auditing program includes:

- ♦Evaluating the adequacy of financial controls, records, and operations
- ♦Evaluating the effectiveness and efficiency of organizational operations
- ♦Providing Council, management, and employees objective analysis, appraisals, and recommendations for improving systems and activities

The Office of the City Auditor is responsible for auditing the systems used by the City of Colorado Springs and its enterprises, including Colorado Springs Utilities. We perform a variety of audits for these entities, including financial audits, performance audits, contract audits, construction audits, and information system audits. We also perform follow-up on a periodic basis to monitor and ensure management actions have been effectively implemented.

**The Audit Committee** assists City Council in fulfilling oversight responsibilities for the City's financial reporting processes, systems of internal control, compliance with legal and regulatory requirements, and internal and external audit processes, including those for all of the City's enterprises.

The 2016 Audit Committee was composed of two members of City Council; Merv Bennett and Andy Pico; and three members from the business community; Marvin Fiala and Dave Wood served during all of 2016. Bridget Toelle completed her 3-year term in 2016 and Brian McAllister was selected as her replacement. Welensky Nathan and W. Paul Bradley were added as committee alternates. Meetings are generally held on the third Thursday of each month at City Hall.

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## Evaluating Ballot Measure 2C

Ballot item 2C passed by an overwhelming 65 percent of the vote in the Colorado Springs November 3, 2015 Special Municipal Election. An excerpt from Ballot Measure 2C states. "The expenditure of these revenues for road repairs and improvements is to be in addition to, and not in lieu of, amounts currently being expended by the City for road maintenance and improvement. During the period the temporary sales and use tax increase is in effect, the City will maintain spending on repair and maintenance of roads and streets at the average of the City's annual spending amount for such repair and maintenance during fiscal years 2012, 2013 and 2014. The

City Auditor will perform an audit to calculate such average spending amount. Subject to City Charter limitations on preparation, submission and approval of the annual budget and annual appropriation ordinance, during such period, the City will annually expend at least the amount so computed on repair and maintenance of roads and streets." Average annual spending for repair and maintenance of roads and streets from the General Funds for the period of 2012 through 2014 was \$2,698,513. The Office of the City Auditor will evaluate whether the City has maintained this level of spending from the General Fund each year during the 2C term.



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## Evaluating the City and Its Enterprises

The Office of the City Auditor is divided into three groups: Financial, Information Technology, and Performance. All reports may be found at <https://coloradosprings.gov/city-auditor/page/2016-audit-reports>. Below is a list of the audits and studies completed by each group in 2016.

**Financial Group Audits:** Colorado Springs Utilities Electric & Gas Cost Adjustment (x3); Utilities Cash Disbursements; Utilities Payroll and Labor; Utilities 2017 Rate Case Audit; Utilities Annual External Report on Executive Limitations (4) Asset Protection and (7) Financial Conditions and Activities; Utilities ETL Electric Rate; Airport Cash Receipts; Airport Grant Reimbursement Timeliness; Airport Off-Site Car Rental; City Lodgers and Automobile Rental Tax (LART); City Payroll; City Purchasing Card.

**Information Technology Audits:** Colorado Springs Utilities Customer Care and Billing General Controls; Utilities SCADA Change Management; City Payroll Information Technology Controls; City Department of Information Technology Governance Monitoring.

**Performance Group Audits:** Colorado Springs Utilities State Grants Management; Utilities Annual External Report on Executive Limitation 11 - Enterprise Risk Management; Utilities Cell Phone and Other Wireless Devices; Utilities 2015 SDS Monitoring; City Ballot Measure 2C Average Road Maintenance Spending (2012-2014); City Trails, Open Space, and Parks (TOPS) Fund; Street Maintenance and Operations Coordination;

In addition to the audits that result in public reports, we performed projects that did not result in a report. For example, we assisted the external financial auditors of both the City and Colorado Springs Utilities. We also attended City Council, Utilities Board, and other committee meetings to monitor activities and provide assistance when appropriate. We were also called upon to provide some assistance to management as consultants, which did not result in a public report.

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## Evaluating the Southern Delivery System



The Office of the City Auditor (OCA) spends approximately 65% of its time examining areas of Colorado Springs Utilities. Even though the Southern Delivery System (SDS) came online in April 2016, monitoring of the project continues. SDS is one of the largest water infrastructure projects completed in the U.S. this century, took decades of planning, nearly six years of construction, and cost an estimated \$825 million. Activities such as commissioning, start-up, system integration, warranty program development, safety, and general contract administration were reviewed. The OCA provided real-time feedback to the SDS team on all issues identified. A commendable practice related to safety was identified.

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## Providing Educational Opportunities

Continuing education is important for many reasons and provides benefits to both the individual auditor and organization. Besides enabling auditors to keep current with professional and industry practices, well trained auditors tend to be more productive. In 2016, the office logged over 500 hours of continuing education. In addition to attending workshops, seminars, and conferences, staff participate on boards and committees for local and national organizations. The Office of the City Auditor serves as a sponsor organization for the National Association of State Boards of Accountancy (NASBA) allowing us to provide Continuing Professional Education (CPE) programs working with other local organizations such as the Colorado Springs Institute of Internal Auditors (CSIIA), the Colorado Springs Association of Certified Fraud Examiners (ACFE) Chapter, and the Public Agency Audit Leaders Roundtable (PAALR), which includes audit leaders from many agencies such as Denver Water, Denver International Airport, other cities, and educational institutions.



Colorado Springs Chapter #133



## Staffed for success in 2017

Denny Nester, MBA, CPA, CIA, CFE, CGAP, CGFM, City Auditor  
Jacqueline Rowland, CPA, CFE, PMP, Assistant City Auditor  
Sally Barber, CPA, CFE, CIA, Financial Audit Supervisor  
Vickie Classen, CPA, CIA, CGAP, CGMA, PMP, Performance Audit Supervisor  
Dale Rickard, CISA, CDP, IS Audit Supervisor  
Shawn Alessio, CPA, CFE, Senior Auditor  
Jennifer Carpenter, CPA, CIA, CFE, Senior Auditor  
Sandy Snee, CPA, IFRS, IS Auditor  
Mark Stidd, MSM, CISA, IS Auditor  
Tom Baird, Auditor II  
Linda Helsley, Auditor II  
Bridgit Le Vie, Auditor II  
Fang Judkins, Auditor I



## Fraud hotline

The Office of the City Auditor operates a fraud hotline inviting employees and the public to report suspected fraud, waste, or abuse of City, Utilities, or Airport resources. Waste and abuse can include improper or misuse of authority, property, equipment or records, waste of public funds, or other irregularities. Fraudulent acts might include misappropriation of funds, accepting or seeking anything of material value from consultants, contractors, or vendors, stealing City property, disclosing confidential information to outside parties, or profiteering as a result of insider knowledge of City activities.

In 2016, the fraud reporting program for the Office of the City Auditor received 22 inquiries. Of those, 7 issues were reviewed with City of Colorado Springs management for response. The remainder were not related to City resources and, consequently, were referred to the Colorado Springs Police Department or to other state and federal agencies.

## A Duty to Report (ADTR)

Report anonymously online using a web-based form at [coloradosprings.gov/cityfraud](http://coloradosprings.gov/cityfraud)

The telephone hotline's caller ID has been disabled to allow for anonymous reporting. 719-385-ADTR.

The Hotline PO Box provides another way to anonymously report fraud, waste and abuse. Address mail to:

Denny Nester, City Auditor  
P.O. Box 2241  
Colorado Springs, CO 80901

E-mail is not truly anonymous, but may be sent to [CityAuditManagement@springsgov.com](mailto:CityAuditManagement@springsgov.com).

