



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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22-17 Colorado Springs Utilities Reliability Program

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Purpose

The purpose of this audit was to evaluate the Utilities Reliability Program (URP). Qualifying project participation criteria was reviewed as were URP projects in progress to ensure they met the program criteria.

Highlights

We reviewed the criteria, process, and documentation for the projects selected by Colorado Springs Utilities (Utilities) for Utilities Reliability Program (URP) funding in 2021. We conclude improvements are needed to ensure URP decisions align with Utilities Rules and Regulations (URR). URP documentation of objectives, guidelines, and decisions should also be strengthened to ensure clarity and transparency. We made three recommendations. See details beginning on page two of this report.

This report was a follow up to the initial URP audit conducted in 2020. That project resulted in one recommendation to establish standardized documentation for URP projects, which we determined was implemented in 2021 by creating the URP criteria matrix and business case template.

URP was a relatively new program intended to identify opportunities to prioritize and fund Utilities' infrastructure projects that meet certain criteria. The URP selection process included identification of projects that maximize economies of scale and address needed repairs or upgrades to bring service lines to current standards. Decision criteria also included external factors such as alignment with City initiatives and economic benefits such as job growth.

URP was budgeted to spend approximately \$10 million per year. During 2021 \$6.5 million was spent on identified projects and \$13.2 million was planned for 2022 projects. Of the four projects being constructed or designed at the time of the audit, all scored highly using the criteria. Priority was given to projects with external factors affecting the start date, such the City's paving program schedule.

We'd like to thank the URP team for its support during this audit.

Recommendations

1. Management should finalize and document the URP objectives and key success factors.
2. The URP criteria matrix and business case templates should be reevaluated to ensure supporting documentation is clear, concise, and complete.
3. Update the URR and LESS as needed to address Utilities'-driven rehabilitation projects, urban renewal, and infill work. Ensure application of URR charges is accurate and documented in URP areas.

Management Response

Management was in agreement with our recommendations.

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Observation 1

As a new program, the URP objectives, qualifying criteria, policies, and processes had not been finalized, documented, or consistently applied. URP lacked a program plan, which is considered a typical method for documenting objectives, processes, and guidelines.

Different drivers for qualifying projects were highlighted over the period of our review. Identification of qualifying projects and project prioritization are dependent on clear and consistent URP program plan information.

Without clear goals and repeatable processes, program success cannot be measured. Utilization of project funds may not be justifiable for consistent and equitable application without fully developed and documented program criteria.

Management Response

Utilities' management is in agreement with the OCA recommendation. The Program Plan is being finalized and will include the recommendations mentioned above. The Program Plan will be complete December 30, 2022.

Recommendation

Management should finalize and document program plan criteria to include goals of the program, project qualifications, and prioritization measures. Documentation should include steps for initial project identification, prioritization, and selection.

Observation 2

Utilities developed a criteria matrix to aid in evaluation and ranking of potential URP projects. The factors and methodology used in the matrix changed as the team considered various approaches to document projects.

A business case template was also developed but used only for projects selected for funding. Both the matrix and business case template contained duplicative information but were missing key information that would better illustrate the need to prioritize projects.

Documentation of project approvals and changes was missing. Significant changes to project scope and priority were not clearly documented. Information provided to auditors and Utilities Board conflicted, indicating there may be more than one source for data.

Management Response

Utilities' management is in agreement with the OCA recommendation. The Program Plan will include the evaluation criteria and prioritization. The Program Plan will be complete December 30, 2022.

Recommendation

Management should reevaluate URP criteria matrix and use of business case data and ensure decision factors align with stated program goals.

Project selection documentation should be complete. Significant changes to selected project scopes should be documented with explanation and approvals.

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Observation 3

The Utilities Rules and Regulations (URR) is a document used by Colorado Springs Utilities to establish the "regulations, rates, and terms and conditions of Utilities' services." The Line Extension and Service Standards (LESS) "set out the technical requirements for connection to and operation with Utilities' infrastructure, as well as acceptable standards of construction of new infrastructure."

The documentation provided to support URP projects did not clearly identify how each project complied with the URR and LESS. Additionally, the URR and LESS do not specifically mention urban renewal, infill, or Utilities' driven revitalization projects such as those evaluated for URP funding. URR and LESS for each service differ in required developer contributions, creating potential confusion in applying URR charges to areas with URP funded projects. URP projects were often driven by developer activities.

URR and LESS governing documents establish cost responsibilities of the developer. It was not possible to validate costs assigned in URP projects were in accordance with the URR and LESS guidance. Therefore, this audit could not ensure fair application of URR charges for redevelopment or infill type URP related projects.

Management Response

Utilities' management is in agreement with the OCA recommendation. The Program Plan will refer to the existing URR and LESS for cost sharing and cost recovery responsibilities between the developers and Utilities. The Program Plan will be complete December 30, 2022.

Recommendation

Management should update the URR and LESS as needed to address Utilities'-driven rehabilitation projects, urban renewal, and infill work.

Management should develop guidelines for URP projects and business cases which include specifications for developer-paid vs. Utilities-paid portions of the work, per the URR and LESS.