Office Of The City Auditor
Colorado Springs, Colorado

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15-33 Special Tax Revenue Audit

November 2015

Purpose

The purpose of this audit was to examine selected funds and operations in the City to document and ensure compliance with specific guidelines established for special tax revenues. The special revenues selected were the Lodgers and Auto Rental Tax (LART) Fund and the activities expended by Pikes Peak Rural Transportation Authority (PPRTA) on behalf of the City. The Briargate Special Improvement Maintenance District (SIMD) Fund was also selected and will be reported on separately.

Highlights

We noted one Observation and two Opportunities for Improvement that would strengthen controls over the LART Fund. We had no findings related to the use of funds spent by the City on behalf of the PPRTA for Street Maintenance activities.

A report addressing the Briargate Special Improvement Maintenance District will be issued separately.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for a specified purpose. These revenues are accounted for and reported separately from general funds. Examples were various Special Improvement Districts (SIMDs) which obtained their funding usually from a property tax assessment on property within the boundaries of the SIMD; the Conservation Trust Fund (CTF) which obtained funding from the State Lottery; the Lodgers and Automobile Rental Tax (LART) which received funding from a dedicated 2% lodging or campground space rental tax and 1% automobile rental tax; the Cable Franchise which received funding from cable providers for cable subscribers within the City, and other similar type funds. These funds were all under direct control of the City. The PPRTA was included in this review. However it is technically not a fund controlled by the city. Additional information on PPRTA can be found on the following page.

-LART

Our audit indicated that the spending of LART funds was in compliance to City Code. All expenditures were properly documented and approved. However, we noted an observation and two opportunities for improvement that would help strengthen

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Management Response

Management was in agreement with our recommendations.

Recommendations

1. (Observation) We recommended that the LART Fund Citizen Advisory Committee establish rules and bylaws on how the Committee should function. This should include the creation and retention of minutes of the LART Committee meetings.

2. (Opportunity) We recommended that the LART Citizen Advisory Committee and City Council determine the information needed from event sponsors when event funding is requested and that the information required and submitted be used during the future event funding evaluation process.

3. (Opportunity) In order to provide an increased level of accountability, we recommended that the LART Fund Citizen Advisory Committee and City Council require an accounting of how the cash LART funds had been used by event sponsors.

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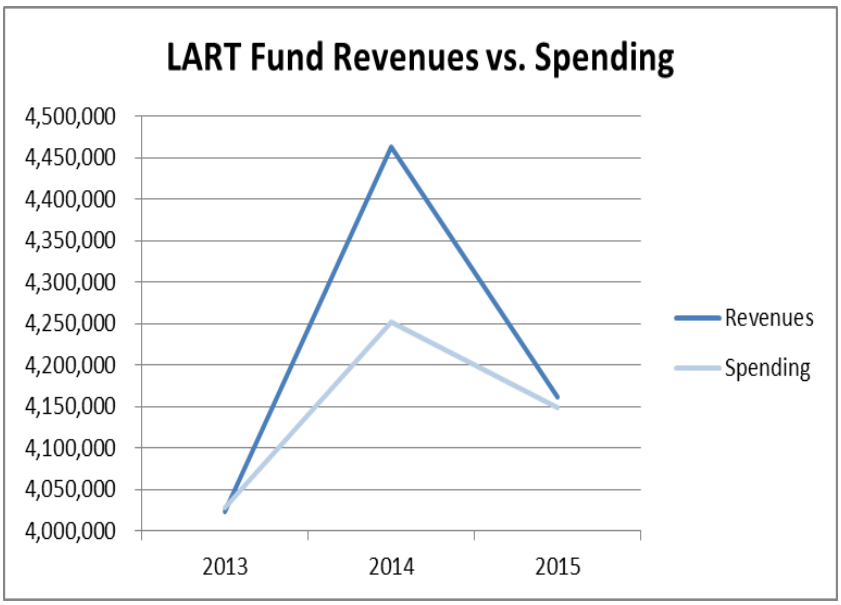
controls over the LART Fund.

The LART Fund was established by an ordinance of the City Council in 1978. It's purpose, at that time, was "to attract visitors to Colorado Springs and the Pikes Peak Region." Current City Code indicated that the LART Fund's purpose was "to attract visitors and to enhance the economy of the City and the Pikes Peak Region." Current City Code also indicated that revenues "shall first be allocated to any contracts for visitor promotion." Revenues not obligated under contract "may be used for the purposes provided [in the City Code] or may be retained in the fund, at the discretion of City Council." City Code also required that revenues for this fund were to be placed in a separate and distinct fund from the City's General Fund and that a Citizens' Advisory Committee be appointed by City Council. Until 2013, the Citizens' Advisory Committee reported to and advised City Council on matters related to the use of LART funds.

The period of review for this audit was 2013, 2014 and the first quarter of 2015.



This graph indicates the actual amount of Revenue received for 2013 and 2014. The 2015 Revenue amount depicted was the amount budgeted and anticipated to be collected. The chart also displays the amount of funds spent for 2013, 2014 and the amounted budgeted to be spent in 2015. At the time of our audit, there had been no spending of 2015 funds.

Source: City CAFRs, Budget and Monthly Spending Detail Reports

-PPRTA Maintenance

Our audit indicated that the spending of PPRTA Maintenance funds was appropriate and in compliance with the 2004 and 2012 ballot initiatives in support of the Roadway Maintenance and Concrete Repair programs. All expenditures were properly documented and approved.

The Pikes Peak Rural Transportation Authority received funding from a dedicated 1% sales and use tax approved by the voters in November 2004 with the voters extending the Capital Improvement portion in November 2012. These funds , $81,283,407 in 2014, were divided, per ballot initiative, into 55% going to Capital Improvements with specific projects detailed in the ballots to be worked, 35% going to Maintenance activities on streets, roads and bridges, and 10% going to Transit activities. Each of the five governmental entities participating in the PPRTA received a portion of the Maintenance funds based on the population reported in the most recent decennial Federal Census. Based on the 2010 Federal Census, the City historically received 70.8586% of the total Maintenance funds.

Neither the 2004 nor the 2012 ballot initiative contained any governing language on how the Maintenance funds were to be spent by the PPRTA member governments. The PPRTA Board of Directors required, and approved, a proposed budget from the member governments each year detailing how the Maintenance funds were going to be

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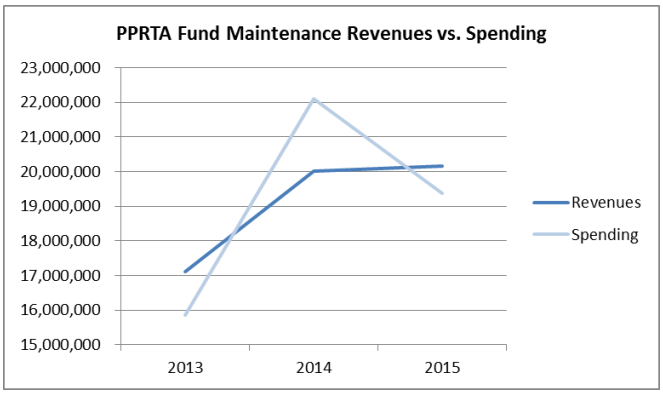
spent. The City had presented to the PPRTA Board a proposed budget for each of the years covered in the period of review for this audit. The methodology used by City staff in creating the budget appeared reasonable. The PPRTA Board also required quarterly status reports from the member governments that provided details on the projects that Maintenance funds were being spent on. The City had provided the required quarterly status reports.

The quarterly status reports contained information related to the spending of Maintenance funds. Typically, the City used the Maintenance funds to support the annual bridge maintenance program, the annual curb and gutter/sidewalk and concrete/Americans with Disabilities Act pedestrian ramp programs, the annual roadway maintenance program, the incident management/signal upgrades program, and the citywide safety and traffic operations program.

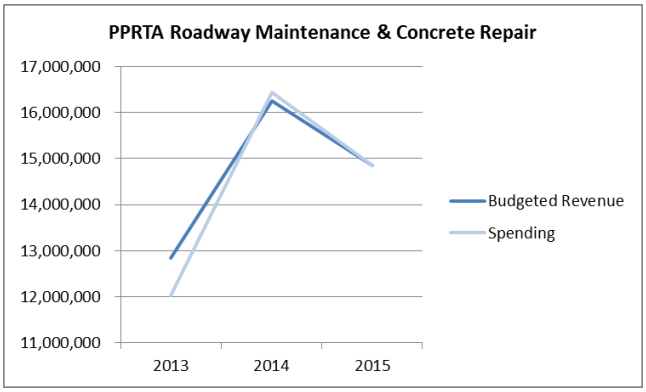
The City contracted with vendors on behalf of the PPRTA for work done on Maintenance activities. The work was conducted under City supervision and payments made to vendors for work done was reviewed and approved by City staff before being submitted to the PPRTA for further approval and payment. The PPRTA Board approved all contracts for Maintenance work that were entered into by the City on behalf of the PPRTA. The City had reviewed and approved all sampled invoices prior to being submitted to the PPRTA for payment.



This graph indicates the actual amount of Maintenance Revenues received and allocated for City usage in 2013 and 2014. The 2015 Revenue amount depicted was the amount budgeted and anticipated to be collected by the PPRTA. The chart also displays the amount of Maintenance funds spent for 2013 and 2014. The amount of funds spent depicted for 2015 was the budgeted 2015 expenditure amount. At the time of our audit, $2,131,441 had been expended.

Source: PPRTA Annual and Monthly Financial Reports

Historically, the City had budgeted 70% of the total Maintenance funding allocation to the annual curb and gutter/sidewalk and concrete/Americans with Disabilities Act pedestrian ramp programs and the annual roadway maintenance program (collectively known as the Roadway Maintenance and Concrete Repair programs).



This graph indicates the amount of Maintenance Revenues budgeted and spent for Roadway Maintenance and Concrete Repair within the City. The amount of funds spent depicted for 2015 was the budgeted 2015 expenditure amount. At the time of our audit, $1,449,171 had been expended.

Source: Quarterly Status Reports provided by the City to the PPRTA

Our audit indicated that the spending of PPRTA Maintenance funds was appropriate and in support of the Roadway Maintenance and Concrete Repair programs. All expenditures were properly documented and approved.

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Observation 1

We noted that there was a lack of written policies and procedures (bylaws or charter) to govern the function of the LART Citizen Advisory Committee. We also noted that no minutes from the Committee meetings had been created or retained. Written policies and meeting minutes provide increased clarity, consistency and historical reference for committee members and staff.

Recommendation

We recommended that the LART Fund Citizen Advisory Committee with City Council staff, establish rules and bylaws on how the Committee should function. This should include the creation and retention of minutes from the LART Committee meetings.

Management Response

City Council staff plans to work closely with City Council, executive staff, the City Attorney's Office, and the LART Citizen Advisory Committee to implement the recommended improvements noted in this report. Bylaws, documented procedures, meeting minutes, and award criteria will be addressed and adopted as appropriate during 2016. We appreciate your review and recommendations.

Opportunity for Improvement 1

We noted that for LART funding in 2014, the contracts between the City and event sponsors usually required an Event Economic Impact Evaluation to be submitted to the LART Citizen Advisory Committee following the event. Staff indicated to us that most event sponsors did not submit the required information and the LART Committee did not routinely utilize any submitted information when determining funding for events in subsequent years.

Recommendation

We recommended that the LART Citizen Advisory Committee and City Council determine the information needed from event sponsors when event funding is requested and that the information required and submitted be used during the event funding evaluation process.

Opportunity for Improvement 2

We noted that neither the City Council nor the LART Citizen Advisory Committee required any details from event sponsors on how the LART cash funding had been spent. When an event was cancelled funds were required to be returned to the LART Fund.

Recommendation

In order to provide an increased level of accountability, we recommended that the LART Fund Citizen Advisory Committee and City Council should require an accounting of how the cash LART funds had been used by event sponsors.

This audit was conducted in conformance 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.