



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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

15-36 Utilities Debt Management

December 2015

Purpose

The purpose of this audit was to review Colorado Springs Utilities (Utilities) Treasury and Finance (TAF) activities including: issuing debt, managing debt, and wire transfers. The primary focus of the audit was to document the process used to issue debt, how debt was reimbursed, and verify adequate controls were in place. Our audit period included 2013 and 2014.

Highlights

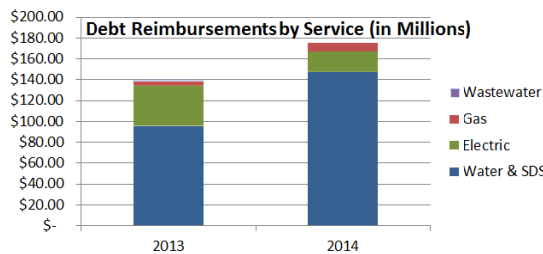
We concluded adequate controls were in place surrounding debt issuance and reimbursements. The Treasury and Finance Department had documented and controlled processes for their ongoing operations. We noted procedural improvements for management to consider.

As reported in the 2014 Annual Report, Utilities has \$2,385 million of total outstanding debt. This debt represents bonds issued for the reimbursement of capital expenditures. During 2013 and 2014, \$138.6 and \$175.6 million of capital expenditures were reimbursed with bond proceeds.

For this review, the Office of the City Auditor (OCA) confirmed controls were in place for TAF activities. We performed a process walk through of debt issuance and assessed processes for issuing wire transfers. No exceptions were noted.

In addition, we analyzed financial metrics associated with debt. We found financial metrics were reported regularly to governance and Utilities maintained their AA bond rating throughout the audit period.

One observation and two opportunities for improvement were provided to management. We would like to thank Colorado Springs Utilities Treasury and Finance Department personnel who assisted us with this audit.



| % of Capital Expenditures Reimbursed with Debt by Service | | |
|---|------|------|
| Service | 2013 | 2014 |
| Electric | 45% | 19% |
| Gas | 36% | 57% |
| Water & SDS | 54% | 66% |
| Wastewater | 2% | 0% |

Recommendations

- CSU should update signature approval limits for TAF employees and these limits should be reflected in the automatic controls available through the banking system.

Opportunities for Improvement

- The process flowchart should include language explaining where users can locate other documents related to wire transfers.
- We communicated the opportunity for improvement in a security protocol directly to management.

Management Response

Management was in agreement with our recommendations.

15-36 UTILITIES DEBT MANAGEMENT

Observation 1

While performing a review of signature authority limits for the wire transfer function, we observed limits established for TAF employees had not been documented and updated in a timely manner to reflect changes in staff. Also, the process used for management to temporarily assign their responsibility to other employees in situations when they would be unable to approve transfers was not included.

We also identified the banking system was able to restrict authorization limits. These limits can be set on the amount of each transaction and on the daily amount that can be completed by an employee.

We noted strong controls in place for wire transfers. Wire transfer privileges were limited to a few select employees and access to the banking system required multi-level authentication.

Management Response

Colorado Springs Utilities agrees with the recommendation. The signature authority limit document will be updated for current management and will include instructions for any acting manager.

Transaction limits for each user of the wire function within the online banking system will also be identified. These updates and changes will be implemented by January 15, 2016.

Recommendation

The Office of the City Auditor recommends management update the signature authority limits in a timely manner, document when staffing changes occur, and add a statement indicating the approval process when management is out. Wire transaction limits should also be evaluated in the online banking system for applicable users.

Opportunity for Improvement 1

While reviewing the wire process, auditors found adequate procedures and documentation were in place in the form of the ACH & Wire Transaction Process flowchart, directions from the bank, and the Vendor Invoice Process. All of these documents inform TAF department staff on how to properly execute wire transfers. However, auditors noted these documents were not co-located and did not inform users of the existence of the other instructions. Staff should be able to quickly identify what documents are available.

Recommendation

We recommend the ACH & Wire Transaction Process flowchart include language explaining where users can locate other documents related to wire transfers.

Opportunity for Improvement #2

While we noted good segregation of duties and security in TAF transactions, we identified an opportunity for improvement in a security protocol.

Recommendation

For security purposes, the opportunity for improvement in a security protocol was communicated directly to management.