



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

11-09: Annual External Report on Executive Limitation (EL) 4 and 7—Asset Protection and Financial Conditions and Activities

Purpose

The purpose of this audit is to verify the report of Colorado Springs Utilities management to City Council on EL-4 related to Asset Protection and EL-7 related to Financial Condition and Activities. In addition to verifying management's report, the Office of the City Auditor would also report on any known violations if such violations were not reported by management. The City Auditor's Office is specifically charged with commenting on EL-4 number 1, 4, 6, 7 & 9 and all of EL-7 for calendar year 2010. This report is normally shared at the April Utilities Board Meeting.

Recommendations

No formal recommendations were made.

Highlights

We have completed the external monitoring as directed by City Council acting in its capacity as the Utilities Board under the Utilities Board Policy Governance.

The EL -7 report dated March 9, 2011 was based on unaudited financial statements. This report contained a clerical error. We noted that Net Assets were reported as \$1,496.6 million which is an overstatement of \$180 million due to the error. Colorado Springs Utilities issued a subsequent update to the Board on April 1, 2011 based on the audited financial statements in which the Net Assets were correctly stated at \$1,316.6 million. This was a reporting error only and did not affect the CEO's compliance with the policy prohibitions.

Our audit included the review of source documentation, tests of calculations, and other auditing procedures we considered necessary to verify the accuracy and reliability of the statements made and the information presented. We also relied on the system audit work performed by our office as well as observations and the work of the external auditors. Our review did not include detailed tests of controls and systems that ensure policy compliance.

We conclude the CEO is in material compliance with the policy prohibitions tested.

Respectfully,

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

Management Response

No response was requested from Colorado Springs Utilities.

CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

COLORADO SPRINGS, COLORADO

About our Office

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, Memorial Health System, and Colorado Springs Airport. 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.

Authorization and Organizational Placement

Our audits are conducted under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706 of the Code. The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council.

Audit Standards

This audit was conducted in accordance 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. The audit included interviews with appropriate personnel and included such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests were performed. Sufficient competent evidential matter was gathered to support our conclusions.