



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

11-13
Colorado Springs Regional
Economic Development
Corporation

June 2011



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Purpose

The purpose of this audit was to answer questions concerning use of public funds provided to the EDC. We also reviewed job announcements and the methodology for calculating the EDC fiscal impact figures.

Highlights

We conclude that overall, the EDC was allocating the City and Colorado Springs Utilities' contributions to programs that supported job attraction and retention efforts, as stated in the annual funding requests. In addition, we found the job announcement data was accurate and within the guidelines of the EDC job creation policy. The methodology used by the external consultant for calculating fiscal impact appeared consistent; however, we noted minor inaccuracies in the utilization of source data. This area is detailed in the attached report.

Recommendations

We recommend that the EDC verify key statistics developed by outside reports when the statistics are used by the EDC in publications or reports.

Management Response

We Partially Agree: As this error was made by an outside agency and our current staffing levels make it very difficult to review in detail the work we contract others to do. That said, future analysis produced by outside agencies will be reviewed in more detail in an effort to identify and correct these types of errors.



OFFICE OF THE CITY AUDITOR PUBLIC REPORT

Date: June 1, 2011

To: Members of City Council

Re: 11-13 Colorado Springs Regional Economic Development Corporation

We performed an audit of the Colorado Springs Regional Economic Development Corporation (EDC). The purpose of this audit was to answer questions concerning use of public funds provided to the EDC as requested by members of City Council in August 2010. We also reviewed job announcements and the methodology for calculating the EDC fiscal impact figures. The audit covered the period January 1, 2009 through December 31, 2010.

We conclude that overall, the EDC was allocating the City and Colorado Springs Utilities' contributions to programs that supported job attraction and retention efforts, as stated in the annual funding requests. In addition, we found the job announcement data was accurate and within the guidelines of the EDC job creation policy. The methodology used by the external consultant for calculating fiscal impact appeared consistent; however, we noted minor inaccuracies in the utilization of source data. This area is detailed in the attached report.

We would like to thank the EDC for their assistance during this audit.

As always, feel free to contact me if you have any questions.

Sincerely,

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

Cc: Michael J. Kazmierski, EDC President and CEO
Mayor Lionel Rivera
Mayor Elect Steve Bach
Steve Cox, Interim City Manager
Lisa Bigelow, City Budget Manager
Bob Cope, City Economic Development Senior Analyst



OFFICE OF THE CITY AUDITOR PUBLIC REPORT

Report Details	1
Purpose and Scope	1
Background	1
Conclusion	2
Observations, Recommendations and Responses	3
Observation 1 – Jobs Data provided by the EDC was misinterpreted	3

REPORT DETAILS

Purpose and Scope

We performed an audit of the Colorado Springs Regional Economic Development Corporation (the EDC). The purpose of this audit was to answer questions raised by City Council concerning how the EDC has used funds provided by the City of Colorado Springs (the City) and Colorado Springs Utilities. We also reviewed job announcements and the methodology for calculating the EDC fiscal impact figures. The audit covered the period January 1, 2009 through December 31, 2010.

Background

Per their website, the EDC is a “privately-funded organization whose sole purpose is to provide primary employers with complementary, comprehensive relocation and expansion services. Primary employers are defined as companies that receive most of their revenue from outside the region. Some of the services offered by the EDC are custom, comprehensive apples-to-apples city comparisons, information regarding building, land, and build-to-suit facility availabilities, site visit assistance, planning and permit meetings with city officials, and incentive analysis preparation. “

The City Economic Development Department had staffing of six full time equivalents (FTE’s) and a \$640,000 annual budget in 2009. Due to budget cutbacks, the City Economic Development Department currently has 1.25 FTE’s. They are primarily focused on Retail Enhancement in the City, which is a distinctly different business segment than the primary employer focus of the EDC. The City staff also works directly with the EDC on incentive packages and prospect issues.

The City and Colorado Springs Utilities have both provided annual funding support to the EDC. In 2010, the City provided funding support in the amount of \$70,000. Colorado Springs Utilities funded an additional \$240,000. The funds provided by the City and Colorado Springs Utilities were intended to be spent in support of job attraction and retention. The estimated EDC total budget in 2010 was \$1,450,000, meaning the City and Colorado Springs Utilities accounted for roughly 21% of the EDC budget.

In September of 2010, Summit Economics, LLC (Summit) completed a study for the EDC summarizing the economic and fiscal impact of the EDC’s primary job creating efforts over the 20-year period 1990 thru 2009. Because the Return on Investment and job creation numbers quoted in the report have been used by the EDC in presentations and as a reference for their productivity, we evaluated the data and calculations used to create the report.

No prior audits of the EDC activities have been performed on behalf of the City. The EDC is, however, subject to routine external audits and review reports. The last external audit was conducted in 2008, and limited reviews were performed in 2009 and 2010.

We would like to acknowledge that the EDC staff was very receptive and helpful during the course of our fieldwork. We also received positive feedback from sampled companies regarding their interaction with the EDC. We would like to thank the City Economic Development Department and Summit Economics, LLC for their assistance as well.

Conclusion

We conclude that overall, the EDC was allocating the City and Colorado Springs Utilities' contributions to programs that support job attraction and retention efforts, as stated in the annual funding requests.

The contributions by the City and Colorado Springs Utilities are summarized below;

Funds Contributed by: ⁽¹⁾	<u>2009</u>	<u>2010</u>
Colorado Springs Utilities	\$ 192,000.00	\$ 240,000.00
City of Colorado Springs	\$ 70,000.00	\$ 70,000.00
Total Contributed:	\$ 262,000.00	\$ 310,000.00

(1) Auditor agreed amounts expended by Colorado Springs Utilities and the City to the EDC Financial Statements.

We reviewed the EDC's breakdown of expenditures for Program Services, which was contained in their September 30, 2010 Independent Accountants' Review Report. The programs, which focus mainly on job attraction and retention, are Prospect Development and the Retention Program. The annual expenditures by the two programs were in excess of the total contributions by the City and Colorado Springs Utilities.

In addition, we found the job announcement data was accurate and within the guidelines of the EDC Job Counting Policy. The major guidelines of EDC Job Counting Policy are listed below;

- The employer must be a primary employer
- The jobs must be new jobs not previously reported in the past 5 years.
- In order to claim jobs, the EDC must deliver value to the company through its services.

We contacted a sample of companies who had job announcements from January 2009 through December 2010. The job announcement responses by the companies were consistent with the announcements by the EDC. The companies also appeared to have been in communication with the EDC. Hence, the data supplied to Summit Economics, LLC by EDC appeared to be accurate.

The methodology used by the Summit Economics, LLC for calculating fiscal impact appeared consistent. However, we noted areas of minor inaccuracies in the utilization of source data. These areas are detailed on the following page.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

Observation 1 – Jobs Data provided by the EDC was misinterpreted

As part of our audit, we reviewed the 2010 Economic and Fiscal Impact of EDC’s Job Creating Activity Study, which was conducted by Summit Economics, LLC (Summit). The purpose of the study was to present an analysis of the economic and fiscal impact of EDC’s primary job creating activity over the 20-year period 1990 thru 2009. The EDC has used the results of this study as a reference source for their productivity in the community.

The EDC provided our office with the job data used by Summit to summarize their study results. We compared the number of primary jobs in place in 2009 as a result of EDC job creating activity. Our review of the EDC job data to information reported by Summit showed that Summit’s reported results contained a slight overstatement of estimated jobs due to data misinterpretation. Six companies, each of which had multiple job announcements in the 1990 thru 2009 period, were each counted twice in the summarization of existing jobs. This duplication led to the 2,572 job difference in the data shown below.

	<u>Memo to EDC</u> <u>Estimate</u>	<u>Auditor</u> <u>Estimate</u>	<u>Difference</u>	<u>% Difference</u>
Primary Jobs in Place in 2009	24,097	21,525	2,572	11%
Local Serving Jobs created (multiply Primary jobs by Regional Impact Factor of 1.52)	36,627	32,718	3,909	11%
Jobs Created by EDC	60,724	54,243	6,481	11%
EDC Created Jobs as a percentage of Total Jobs (Per memo, total CS Metro jobs was 248,400)	24.45%	21.84%	2.61%	11%

We estimate that the errant duplication of six companies overstated the total EDC Created Primary Jobs in Place in 2009 by 11%. The total jobs figure was the basis of many of the fiscal impact calculations for metro area state sales, use and property taxes collected as well. We surmise that the jobs overstatement may have affected the other calculations by 11% as well.

AUDITOR’S RECOMMENDATION

We recommend that the EDC verify key statistics developed by outside reports when the statistics are used by the EDC in publications or reports.

EDC RESPONSE

We Partially Agree: As this error was made by an outside agency and our current staffing levels make it very difficult to review in detail the work we contract others to do. That said, future analysis produced by outside agencies will be reviewed in more detail in an effort to identify and correct these types of errors.

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.