



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

12-25 Colorado Springs Airport Fixed Assets

December 2012



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Purpose

The purpose of this limited scope review was to verify the Colorado Springs Airport (Airport) fixed assets accounting records. The Airport requested our assistance to ensure the fixed asset listing was complete and accurate .

Highlights

We conducted a physical inventory of all assets that were on the Airport fixed asset listing. We concluded that additional research, management decisions and adjustments were required to ensure fixed assets are accurately stated. When our audit began, the Airport had 446 assets with a value of \$332,675,353.62.

As a result of audit procedures, we identified adjusting entries that would be needed to correct the asset listing to remove assets that were no longer in service of \$1,733,917. We also noted surveys and studies of \$1,090,912 that should be researched to determine if they were properly capitalized. Adjustments should be made related to these items to ensure asset balances are correctly stated.

Additionally, we identified some instances where large combined asset units could be better tracked by separating them into discrete smaller units of property. We understand that under governmental accounting pronouncements, this practice is acceptable, but may not be optimal for the Airport. We also identified asset classes where the City's useful life policies should be evaluated to ensure they correspond to the typical years of service for that asset class. Airport and City Finance may determine adjustments to the asset balances to facilitate asset tracking and better meet the organization's needs.

Management Response

Management was generally in agreement with our findings and recommendations.

Recommendations

1. Improve processes to ensure asset disposals, replacements and retirements are identified and recorded accurately and timely.
2. Determine if surveys and studies should be capitalized and develop policy guidance.
3. Review large combined assets and separate into appropriate single units.
4. Review the useful life assigned to runways, taxiways, and aprons.

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OFFICE OF THE CITY AUDITOR PUBLIC REPORT

Date: December 31, 2012

To: President Hente, President Pro Tem Martin, Members of City Council

Re: 12-25 Colorado Springs Airport Fixed Assets

We conducted a limited scope review of the Colorado Springs Airport (Airport) Fixed Assets. The purpose of this review was to verify the existence of all assets that were on the Airport's fixed asset listing. This audit required cooperation between Airport and City Auditor staff to perform physical inventory of secured airport areas. The work began in 2010 and experienced delays including a break for the year-end financial audit as well as personnel changes within Airport and Office of the City Auditor. Also the audit began as a statistical sample test of Airport fixed assets and expanded to a full inventory of the Airport assets.

As a result of audit procedures performed, we found instances where items were being reported on the fixed asset listing, but were no longer in service. We also found surveys and studies that should be researched to determine if they were properly capitalized. Adjustments should be made related to these items to ensure asset balances are correctly stated.

We identified large units of property that could be better tracked by separating them into smaller, discrete units. Additionally, we identified assets classes where the City's useful life policy should be evaluated to ensure they correspond to the typical years of service for assets that are unique to the Airport. Airport and City Finance should consider adjustments to the asset balances to facilitate asset tracking and better meet the organization's needs.

We conclude that additional work will be required to ensure the Fixed Asset List is accurate. The Airport has indicated that they will be engaging a consultant to assist with this work. We have detailed our observations and recommendations in the attached report.

We would like to thank the Airport and City Finance staff for their time and help in completing this audit.

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

Sincerely,

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

Cc: Steve Bach, Mayor
Laura Neumann, Chief of Staff
Kara Skinner, Chief Financial Officer
Mark Earle, Director of Aviation



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REPORT DETAILS

PURPOSE AND SCOPE

The purpose of this limited scope review was to verify the existence of all fixed assets recorded in the Airport's accounting records by conducting a physical inventory. The Airport requested our assistance to ensure the fixed asset listing was complete and accurate.

The initial scope of our review included a testing of a statistical sample of fixed assets but was later changed, at the request of the Airport, to a review of 100% of the Colorado Springs Airport fixed asset listing.

BACKGROUND

In the past, City Finance maintained all documents and records related to fixed assets for the Airport. In 2009, a transition began and the Airport became responsible for all additions of fixed assets to the Asset Management Module.

In 2010, the Airport was responsible for both additions and dispositions, while the City was responsible for transfers of the Airport's fixed assets. The Airport tracks additions and dispositions throughout the year. Then, annually, the City Finance Department inputs the data into the fixed asset module.

We identified instances where assets were placed on the Asset Management Module as a single line item combining many component items. Our review determined these large combined asset units could be better tracked for depreciation, replacement and retirement by separating them into discrete, smaller units of property. We acknowledge that under governmental accounting pronouncements, this practice is acceptable.

At December 31, 2009, the Airport fixed asset listing included 446 asset line items with a cost of \$322,672,354, depreciation of \$87,446,621 and net book value of \$235,225,733. Based upon the complete physical inventory of Airport assets, we were able to verify 402 of the 446 Airport Fixed Asset accounting records. We further reviewed the 44 remaining items and our results are detailed in this report.

CONCLUSION

As a result of audit procedures, certain assets were identified that were no longer in service, but were still included in the asset listing. We recommended these assets, totaling book value of \$1,733,917 should be removed from the asset listing. Additionally, we identified capitalized surveys and studies of \$1,090,912 with no clear guidance whether these should have been capitalized under City Policy and where, in some cases, supporting documents were limited and descriptions were vague. We conclude that additional research, management decisions and adjustments will be required to ensure these items



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are accurately stated. The Airport has indicated that they will be engaging a consultant to assist with this work.

In addition, we noted some assets were capitalized in bulk accounts in accordance with accounting guidance. These large units of property could be better managed and tracked by separating them into discrete, smaller units. We also identified asset classes where the City's useful life policies should be evaluated to ensure they correspond to the typical years of service for that asset class. Based on their review, City and Airport Accounting may determine that additional adjustments to the asset balances should be made to facilitate asset tracking and better meet the organization's needs.



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OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

OBSERVATION 1 – PROPER ASSET DISPOSAL PROCEDURES WERE NOT FOLLOWED

Based on interviews with Airport personnel and review of supporting records, we identified 16 assets on the fixed asset listing that should have been removed when the asset disposal took place. The asset balances were as follows:

Type of adjustment	Unadjusted Net Book Value at 12/31/11	Adjusted Net Book Value at 12/31/11	Adjustment to an expense account
Property no longer in service	\$105,381	\$0.00	\$105,381

Per Colorado Springs Airport Management Response: "The actual amount of adjustment will be based on the consultant's report."

Thirteen of these items were placed in service between 1994 and 1999, while the remaining three were placed in service between 2003 and 2005.

On an annual basis, the City Finance Department distributes a fixed asset listing to all City departments and enterprises. Department personnel are responsible to review these asset listings to identify any assets that have been disposed of to ensure the asset listing is up-to-date.

AUDITOR'S RECOMMENDATION

Airport Accounting should develop a process to ensure that disposals, replacements and retirements are identified and recorded accurately and timely. City Finance should consider if the current annual process ensures that all significant dispositions have been recorded across the organization. If it is determined that dispositions may not have been recorded in other City departments or enterprises, additional review and verification of asset balances, particularly larger dollar assets, should be performed.

COLORADO SPRINGS AIRPORT RESPONSE

We agree with the recommendation. In 2013 the Airport will work with City Finance to complete the transfer of responsibility for fixed assets tracking to the Airport that was initiated in 2009. The Airport will establish procedures to ensure that disposals, replacements and retirements are identified and recorded accurately in a timely manner. The Airport will include this task in the scope of work for the consultant. The consultant will also review the recommended adjustments and their recommendation will be reviewed by the Airport, City Finance and City Audit.



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CITY FINANCE RESPONSE

We agree with the finding and recommendation. City Finance's policy is to provide the current list of assets to each City department and enterprise once a year. The departments and enterprises are responsible for updating the asset list and informing Finance of any changes or disposals that occurred during the year. City Finance will send out a reminder to departments of the policy and work more closely with departments and enterprises to ensure assets are updated appropriately.



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OBSERVATION 2 – ASSETS WERE NOT IDENTIFIABLE AND MAY NOT BE CAPITALIZABLE

Of the 44 items that required additional follow-up after our initial inventory, seven related to consulting services or studies. These included such items as Airport master plans, business park concept plans, survey studies or consulting services. Documentation describing the nature of the services performed was not available in some instances. Additionally, the City policy did not provide guidance regarding requirements that might determine if a consulting payment should be capitalized.

Type of adjustment	Unadjusted Net Book Value at 12/31/11	Adjusted Net Book Value at 12/31/11	Adjustment to an expense account
If Item should have been expensed	\$1,090,912	\$0.00	\$1,090,912

Per Colorado Springs Airport Management Response: "The actual amount of adjustment will be based on the consultant's report."

Additionally, 14 items were not identifiable due to limited or vague asset descriptions. The Airport believed these items were still in service, and will perform further research to update asset descriptions as necessary.

Number of unidentifiable assets	Cost	Accumulated Depreciation	Net Book Value at 12/31/11
14	\$3,462,661	\$1,163,271	\$2,299,390

Per Colorado Springs Airport Management Response: "The actual amount of adjustment will be based on the consultant's report."

AUDITOR'S RECOMMENDATION

We recommend that Airport Accounting and City Finance personnel determine if the plans, surveys and other items noted in this review should have been capitalized or expensed. The Finance groups at the City and the Airport should work together to develop guidance and related procedures to ensure the policy is consistently applied in the future.

Airport Accounting should research the assets that could not be identified to verify their existence and make any required adjustments to the asset listing. City Finance and Airport Accounting should record assets with clearly identifiable descriptions.



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COLORADO SPRINGS AIRPORT RESPONSE

We agree with the recommendation. In the case of new assets, Airport staff will submit descriptions, type and useful life for each asset to be capitalized at year end to the City Finance Department. If the new asset is a replacement, the old asset will be identified for removal from the fixed assets list. The Airport will work with City Finance to develop procedures to ensure the policy is consistently applied. The Airport will include this task in the scope of work for the consultant. The consultant will also review the recommended adjustments and their recommendation will be reviewed by the Airport, City Finance and City Audit.

CITY FINANCE RESPONSE

We agree with the finding and recommendation. The Airport will work closely with City Finance to determine if the plans, surveys and other items noted should have been capitalized or expensed. Assets that could not be identified will be researched and the asset list will be adjusted accordingly. We will be sure to include clear descriptions of the assets on the asset listing. We will also work together to develop policies and procedures for capitalizing assets that are specific to Airport. This will include a section on the capitalization of consulting and other fees.



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OBSERVATION 3 – MULTIPLE ASSETS WERE RECORDED OR COMBINED AS A LARGER ASSET

Our research identified seven assets that were recorded for the project in total as opposed to units of the project individually. For example, we identified two assets recorded as the *new terminal building*. Through the review of limited historical records, we determined the line item titled *new terminal building* included the building and other various assets. The building was depreciated over 40 years which was not representative of all assets included in this line item. We understand that under governmental accounting pronouncements this practice was acceptable. However, this practice has made it more difficult to account for additions and retirements of portions of the large asset.

We summarize proposed adjustments to the larger asset for replacements and more accurate useful life grouping. Details of the proposed adjustment are as follows:

Type of adjustment	Unadjusted Net Book Value at 12/31/11	Adjusted Net Book Value at 12/31/11	Adjustment to depreciation expense or an expense account
Property no longer in service	\$1,418,684	\$0.00	\$1,418,684
Change useful life to more appropriate for asset type	\$12,291,132	\$6,355,125	\$5,936,007

Per Colorado Springs Airport Management Response: "The actual amount of adjustment will be based on the consultant's report."

While two assets were not in service, the Airport believes the five remaining assets are still in service and these assets can be separated into smaller line items. This will allow the Airport to better record related additions and dispositions in the future. For example, the description "Taxiway H, C & F," could be separated into three unique assets for each taxiway.

AUDITOR'S RECOMMENDATION

The Airport should update the assets listing for items no longer in service and review large combined assets to separate them into the appropriate smaller units. The Airport should review the asset listing annually and ensure any new assets are classified appropriately.

COLORADO SPRINGS AIRPORT RESPONSE

We agree to the recommendations. The Airport will work with City Finance to determine how the assets were described initially. The asset descriptions and amounts will be updated where possible. The Airport will include this task in the scope of work for the consultant. The consultant will also review the recommended adjustments and their recommendation will be reviewed by the Airport, City Finance and City Audit.



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CITY FINANCE RESPONSE

Asset policies and procedures will be updated to address the proper recording of large assets.



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OBSERVATION 4 – REVIEW ASSET USEFUL LIVES

During our review we noted that runways, taxiways, and aprons were being depreciated over 25 years but we found that they were being replaced more frequently. Therefore, the useful life and related depreciation expense may not be accurate.

AUDITOR'S RECOMMENDATION

Airport Accounting and City Finance should review the appropriate life of this asset classification.

COLORADO SPRINGS AIRPORT RESPONSE

We agree with the recommendation. Airport Accounting will include a task to determine the industry standards for airfield paving in the scope of work for the consultant. The consultant's recommendation will be reviewed by the Airport, City Finance and City Audit.

CITY FINANCE RESPONSE

We agree with the finding and recommendation. The Airport and City Finance will work together to develop more appropriate depreciation schedules to reflect the useful lives of industry specific assets.

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 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

The audit was conducted in a manner that meets or exceeds the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors, with the exception of the requirements under standards 1312 and 1321 to obtain an external quality assurance review once every five years. We do not believe this non-compliance impacted the quality of our audit.

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