



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

13-17 Colorado Springs Utilities

Rate Competitiveness Audit

October 2013



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Purpose

The purpose of our audit was to verify Colorado Springs Utilities 2012 peer utility rate analysis, methodology, reporting, and reasonableness of the rate comparison process.

Highlights

Colorado Springs Utilities mission statement is *Provide safe, reliable, and competitively priced electric, natural gas, water and wastewater services to the citizen owners and customers of Colorado Springs Utilities*. Regional and national rate competitiveness measurements were compiled and utilized by Colorado Springs Utilities as key performance indicators for Colorado Springs Utilities Chief Executive Officer (CEO).

We concluded overall:

- The rate comparisons were generally calculated accurately.
- Rate comparisons results were reported as total customer bill and did not include results by service for each customer class.
- The 2013 national rate comparison methodology change to include only industrial customers may not be sufficient.

Colorado Springs Utilities CEO performance measures were based on total bill comparisons. The charts on the next page were compiled by the City Auditor's Office to provide by service detail using data collected by Colorado Springs Utilities and reviewed by our office.

(Continued on page 2)

Management Response

Colorado Springs Utilities management agreed with one recommendation and partially agreed with two recommendations. See detailed responses in the following report.

Recommendations

1. Colorado Springs Utilities should ensure rate competitiveness measures consider all ratepayers' interests within cost benefit considerations consistent with the organization's mission statement.
2. Colorado Springs Utilities should report the national and regional rate comparisons by service (Electric, Gas, Water and Wastewater).
3. Sales tax should not be included in rate comparisons to peer utilities. Assumptions used in the annual national comparison study should be defined, consistently applied, and reviewed by management.

13-17 Colorado Springs Utilities Rate Competitiveness Audit

October 2013

(Highlights continued from page 1)

The regional results indicate that Colorado Springs Utilities offers lower electric rates, and that rates were higher for gas, water*, and wastewater than peer utilities within the region surveyed by Colorado Springs Utilities:

2012 Regional Utility Survey Results					
	Electric	Gas	Water	Wastewater	Total Bill
Residential	(20.47%)	26.40%	22.18%	38.72%	5.59%
Commercial	(33.31%)	28.22%	33.47%	25.74%	(0.30%)
Industrial	(21.87%)	39.28%	49.31%	20.56%	(11.01%)

Negative number indicates better than average regional rates, positive indicates higher than average regional peer utility

Source: Colorado Springs Regional Rate Comparison Results

The survey represents a snapshot of year end rates including fuel adjustments that may vary within a given year.

The national city comparison performed by Colorado Springs Utilities showed that commercial and industrial typical bills were less than the national average, primarily due to competitive electric rates:

2012 National Utility Survey Results					
	Electric	Gas	Water	Wastewater	Total Bill
Residential	(5.07%)	(1.17%)	35.89%	4.57%	4.97%
Commercial	(29.94%)	4.51%	63.77%	0.58%	(6.84%)
Industrial	(12.49%)	9.43%	53.99%	(19.39%)	(7.06%)

Negative number indicates better than average national rates, positive indicates rates higher than average national peer utility

Source: Colorado Springs 22-City Survey Comparison Results (CSU bill compared to the average of 23 Cities including Colorado Springs).

The survey represents a snapshot of year end rates including fuel adjustments that may vary within a given year.

* Water rates have increased 12% per year in 2011 and 2012 primarily for the Southern Delivery System water pipeline project bringing water from the Arkansas River to Colorado Springs.

City Council's Office of the City Auditor
 City Hall ♦ 107 North Nevada Avenue ♦ Suite 200 ♦ Mail Code 1542
 Colorado Springs CO 80901-1575
 Tel 719-385-5991 ♦ Fax 719-385-5699 ♦ Reporting Hotline ♦ 719-385-2387
www.SpringsGov.com/OCA



Office of the City Auditor Public Report

Date: October 9, 2013

To: President King, President Pro-Tem Bennett, and Members of City Council

Re: 13-17 Colorado Springs Utilities Rate Competitiveness Audit

We conducted an audit of Colorado Springs Utilities rate comparison of regional and national peer utilities. This was performed by verifying the 2012 measure calculations included in the annual and long-term performance plans for Colorado Springs Utilities Chief Executive Officer (CEO). Colorado Springs Utilities reported the results of these measures related to rate competitiveness to the Utilities Board at their March 20, 2013 meeting.

The audit included recalculating rates, verifying rate components to rate tariff schedules, application of consistent assumptions, and reviewing the overall rate comparison process for reasonableness.

We concluded that the regional rate comparison, utilized in the annual performance plan and enterprise scorecard, was accurately calculated.

We identified inconsistencies in the national survey calculation which was utilized for the long term performance plan. Colorado Springs Utilities made corrections during our review, which coincided with Colorado Springs Utilities rate comparison process, and the results presented to Utilities Board included these changes. These inconsistencies did not change the overall rating of needs improvement for this performance measure.

We provided three recommendations for improvement in tracking, reporting, and measurement of rate competitiveness.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Denny Nester".

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

Cc:

Jerry Forte, Chief Executive Officer
Bill Cherrier, Chief Planning and Financial Officer
Sherri Newell Wilkinson, Chief Strategy and External Affairs Officer
Henry Henderson, Interim Manager, Financial Planning and Pricing
Cindy Newsome, Manager, Office of Economic Development
Dave Maier, Manager, Enterprise Risk Management
Patricia Van Meter, Lead Analyst, Enterprise Risk Management
Chris Melcher, City Attorney



Office of the City Auditor Rate Competitiveness Review

Report Details	1
Purpose and Scope	1
Background and Methodology	1
Commendable Practices	3
Conclusion	4
Observations, Recommendations and Responses.....	5
Observation 1 –National survey for price competitiveness may not be sufficient.....	5
Observation 2 – Regional and national rate data presented to Utilities Board was limited	7
Observation 3 - The national survey did not apply consistent assumptions	9
Attachments	10
Appendix A – National 22 cities surveyed	10
Appendix B – Excerpt from report to Utilities Board on rate competitiveness	10
Appendix C – Regional rate comparison peer utilities.....	11



REPORT DETAILS

PURPOSE AND SCOPE

We conducted an audit of Colorado Springs Utilities rate comparison to other utilities for 2012 by verifying Colorado Springs Utilities peer utility rate analysis, methodology, and reporting. Rate competitiveness measures were key measures for the organization and were included in CEO performance plan.

Colorado Springs Utilities measures competitiveness with peer utilities for all four services by conducting a quarterly regional survey and a national survey of 22 cities identified by the Colorado Springs Regional Business Alliance. Colorado Springs Utilities communicated the 2012 year-end rate competitiveness measure results to the Utilities Board on March 20, 2013.

Our audit procedures included recalculating rates, verifying rate components to rate tariff schedules, determining assumptions were consistently applied, and reviewing the overall rate comparison process for reasonableness.

Our review focused on rate comparison reporting to governance and customers. We examined CEO Performance measures only as they related to rate competitiveness reporting.

BACKGROUND AND METHODOLOGY

Colorado Springs mission statement is to 'Provide safe, reliable, competitively priced electric, natural gas, water and wastewater services to the citizen owners and customers of Colorado Springs Utilities. Rate competitiveness measures were key performance indicators for the Colorado Springs Utilities Chief Executive Officer (CEO) Performance Plan in 2012. Two performance measures related to rate competitiveness were included.

"The CEO Performance Plans – Annual and Long Term – clearly define the expected results that the Utilities Board deems appropriate for the organizations success. The CEO Performance Plans, in turn, provide focus for the organization and guide the establishment of objective goals and key initiatives defined within the Strategic Plan."

The 2012-2016 Strategic Plan included an objective related to competitive rates:

" F2: Keep rates competitive

Colorado Springs Utilities contributes to the community's economic vitality by maintaining competitive rates now and in the future. The delivery of four utility services in an efficient and effective manner is accomplished by balancing cost with service levels and ensuring customer understanding and confidence in financial integrity and rates.

Enterprise Scorecard Indicator(s):

Economic Price Competitiveness (Residential, Commercial & Industrial)

Regional Utility Price Competitiveness (Residential, Commercial, & Industrial")



Office of the City Auditor Rate Competitiveness Review

Note that upon Colorado Springs Utilities staff recommendation and March 2013 Utilities Board decision, Economic Price Competitiveness will measure and report industrial rates only.

Regional Rate Comparison:

The regional rate comparison comprised 6% of the Chief Executive Officer's scorecard measure.

An overall score of +/-5% regional utilities for this scorecard measure was considered meets expectations.

For 2012, Colorado Springs Utilities performance rating was in the meets expectations category.

To determine Colorado Springs Utilities competitiveness as compared to utilities in the region, we tested the regional rate comparison performed by Colorado Springs Utilities for use in the organizations performance measures. Typical bills for all four services were combined for residential, commercial and industrial customers and compared to four-service typical bills of utilities in the Front Range. The score for residential, commercial, and industrial was then averaged to calculate a measure of overall competitiveness.

The regional rate comparison was updated each quarter and the four quarters were averaged for use in Colorado Springs Utilities Chief Executive Officer performance plan. Our review consisted of a full verification and recalculation of the 4th Quarter, 2012, regional rate comparison. See *Appendix B* for Colorado Springs Utilities 2012 report to the Utilities Board on this performance measure.

Using the results from the regional study, we developed the following data for Colorado Springs Utilities as of December 31, 2012, as compared to average peer utility rates:

2012 Regional Utility Results					
	Electric	Gas	Water	Wastewater	Total Bill
Residential	(20.47%)	26.40%	22.18%	38.72%	5.59%
Commercial	(33.31%)	28.22%	33.47%	25.74%	(0.30%)
Industrial	(21.87%)	39.28%	49.31%	20.56%	(11.01%)

Negative number indicates better than avg regional rates, positive indicates higher than avg regional peer utility

Source: Colorado Springs Regional Rate Comparison Results

The survey represents a snapshot of year end rates including fuel adjustments that may vary within a given year.

The regional results indicate that Colorado Springs Utilities offers lower electric rates, but rates were higher for gas, water, and wastewater than peer utilities within the region. Water rates increased 12% per year in 2011 and 2012 primarily for the Southern Delivery System water pipeline project bringing water from the Arkansas River to Colorado Springs. For the total typical bill, rates were competitive within the region.

See *Appendix C* for details of peer utilities included in the comparison.

National Survey Rate Comparison:

The national city comparison comprised 5% of the Chief Executive Officer's scorecard measure. If Colorado Springs Utilities four service combined bill ranked in the 50% to 31% percentile or less compared to peer utilities, this performance was considered meets expectations.



Office of the City Auditor Rate Competitiveness Review

For 2012 the overall rating for a composite score of residential, commercial and industrial ratepayers was in the needs improvement category, due to residential rate performance. See *Appendix B* for Colorado Springs Utilities 2012 report to the Utilities Board on this performance measure.

The national city survey was completed annually and compares rates with peer utilities across the nation, as selected by the Colorado Springs Regional Business Alliance (formerly the Economic Development Corporation). Typical bills for all four services were combined for residential, commercial and industrial customers and compared to four-service typical bills of peer utilities. The score for residential, commercial, and industrial was then averaged to calculate a measure of overall competitiveness.

Our review of the national city survey rate comparison included testing of 54 of the 264 different rates using statistical sampling methodology, which provided a 90% confidence level with a 10% tolerable error rate.

Using the data from the national survey, we compiled the following data for Colorado Springs Utilities as of December 31, 2012, compared to the average peer utility rates:

2012 National City Utility Results					
	Electric	Gas	Water	Wastewater	Total Bill
Residential	(5.07%)	(1.17%)	35.89%	4.57%	4.97%
Commercial	(29.94%)	4.51%	63.77%	0.58%	(6.84%)
Industrial	(12.49%)	9.43%	53.99%	(19.39%)	(7.06%)

Negative number indicates better than average peer rates, positive indicates higher than average peer utility

Source: Colorado Springs 22-City Survey Comparison Results (Colorado Springs Utilities bill compared to the average of 23 Cities including Colorado Springs).

The survey represents a snapshot of year end rates including fuel adjustments that may vary within a given year.

The comparison showed that overall total bills were comparable to the national average, due primarily to the competitiveness of electric rates. As noted previously, water rates increased 12% in both 2011 and 2012 primarily for the Southern Delivery System water pipeline project bringing water from the Arkansas River to Colorado Springs.

See *Appendix A* for a breakout of the cities included in the comparison.

COMMENDABLE PRACTICES

The City Auditors Office notes that Colorado Springs Utilities industrial rates remain competitive for 2012, creating an environment friendly for current businesses and attractive for industrial customers relocating to the area. We noted:

- The total bill for the Industrial customer class in the regional rate review received a performance rating of exceeds expectations with a 12.55% regional cost advantage. (See Appendix B to this report.)



Office of the City Auditor Rate Competitiveness Review

- The Colorado Springs Regional Business Alliance, formerly known as the Economic Development Corporation, listed low utility rates as one of the top 10 reasons to relocate to Colorado Springs. Colorado Springs Utilities collaborates with the Regional Business Alliance to foster economic development.
- Colorado Springs Utilities works with organizations considering relocation to Colorado Springs to develop contracts that benefit the customer and ratepayers.

CONCLUSION

We concluded the regional and national rate comparisons, reported in the annual CEO performance plan were generally compiled and calculated accurately.

We concluded competitiveness of each service (Electric, Gas, Water, and Wastewater) was not reported but would be useful in the Utilities Board's monitoring and oversight activities. Additionally, the 2013 national rate comparison methodology change to include only industrial customers may not be sufficient.

We are providing three recommendations for improvement in tracking, reporting, and measurement of rate competitiveness.



OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

OBSERVATION 1 –NATIONAL SURVEY FOR PRICE COMPETITIVENESS MAY NOT BE SUFFICIENT

For 2013, Colorado Springs Utilities will only compare industrial rates in their national survey as a measure of economic development performance. Accordingly, commercial and residential rates will no longer be benchmarked with other national cities for price competitiveness.

The Regional Business Alliance indicated in addition to industrial rates, commercial rates were important in attracting new businesses.

Colorado Springs Utilities 2013 Annual Operating Plan identified commercial customers as most often competing for economic development.

Upon Colorado Springs Utilities staff recommendation, the December 2012 Utilities Board approved a change to the economic development performance measure for 2013. This change eliminated residential and commercial rates for national competitive comparisons. Staff noted the significant time requirements of performing the national survey for all rate classes and the importance of industrial rates only to economic development.

Colorado Springs Utilities staff performed the national city survey which included 22 cities identified by the Colorado Springs Regional Business Alliance (CSRBA) as cities in competition with Colorado Springs. See Appendix A for the 22 city listing.

The City Auditors Office contacted the CSRBA, which noted that competitive commercial utility rates were also important in attracting new businesses to Colorado Springs. CSRBA indicated that many of the new employers relocating to the area in recent years were medium sized companies employing 5-40 persons, and would not qualify for industrial rates. Additionally, the 2013 Annual Operating Plan Executive Summary indicated the 'commercial customers...Colorado Springs most often competes with for economic development'.

National residential rates will not be surveyed in 2013 or included in internal scorecard measures. The residential ratepayer class represents almost 50% of electric revenues and 90% of electric customers per the 2012 Electric Cost of Service study. Elimination of national city residential rate comparison results in limiting comparison for electric and gas to three and two utilities respectively in the Regional survey. See Appendix C for the Regional Utilities surveyed.

The Office of the City Auditor's November 2012 Electric and Gas Rate Review report included a recommendation that Colorado Springs Utilities consider activities to increase input and representation from residential and small commercial stakeholders. The City Auditor noted that the revision to the economic development performance measure may further emphasize the interests of industrial ratepayers as compared to interests of residential and commercial ratepayers.



Office of the City Auditor Rate Competitiveness Review

AUDITORS RECOMMENDATION

Colorado Springs Utilities should:

- Include commercial customers in measures of economic development rate competitiveness.
- Ensure that the residential rate comparison is adequate to measure and report the competitiveness of residential rates to the Utilities Board and citizen owners.
- Consider costs and benefits in determining number and frequency of peer utilities to be surveyed to ensure sufficient data for comparison.

COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities partially agrees with the recommendations:

- Colorado Springs Utilities recognizes that there is some value in the National commercial comparison. However, given the extensive resource requirement necessary to complete this survey, an alternate approach will be to complete the commercial segment of the survey every three years.
- Colorado Springs Utilities believes that the Regional comparison is adequate to reflect residential competitiveness and will report this to both the Utilities Board and citizen owners as appropriate.
- Colorado Springs Utilities has evaluated the existing survey process and finds the number and frequency of peer utilities surveyed to be optimal for data comparison purposes, considering the costs and benefits involved.



OBSERVATION 2 – REGIONAL AND NATIONAL RATE DATA PRESENTED TO UTILITIES BOARD WAS LIMITED

Price competitiveness for 2012 was only reported to the Utilities Board in the CEO Performance report and the information was aggregated rather than detailed by service and by customer class.

The combined presentations did not provide the Board with detail indicating regionally Gas, Water and Wastewater were not competitive by 20 to 50%. Additionally the Board was not presented national results data in detail to show that while Electric service was competitive, the Water service was not competitive by 36 to 64%, and the Gas and Wastewater services were slightly below average competitiveness by 1 to 10% nationally.

Additionally multi-year trends by customer class and service were not reported to the Utilities Board or City Council. Trend information would indicate stable, declining or improving movement of price competitiveness and assist City Council in rate setting decisions.

Colorado Springs Utilities staff performed a national and a regional rate comparison by combining typical bills for all four services for residential, commercial and industrial customers. This combined bill was then compared to typical bills and reported to the Utilities Board in the CEO Performance reports. In the CEO Performance Plan there are two measures that relate to rate competitiveness; Regional Utility Price Competitiveness Index and Economic Development Price Competitiveness Index. See Appendix B for 2012 year end rate competitiveness measures reported to the Utility Board in March 2013.

Our office compiled the following charts using CSU survey data. The following data includes by service rate comparison detail which was not presented to the Utilities Board or City Council. Detail competitive data would be useful in the Board’s monitoring and oversight.

2012 Regional Rate Comparison Results					
Reported	Not Reported				
Total Bill	Electric	Gas	Water*	Wastewater	
Residential	5.59%	-20.47%	26.40%	22.18%	38.72%
Commercial	-0.30%	-33.31%	28.22%	33.47%	25.74%
Industrial	-11.01%	-21.87%	39.28%	49.31%	20.56%

Negative number indicates better than average regional rates, positive indicates higher than average regional peer utility

2012 National Utility Survey Rate Comparison Results					
Compiled by OCA					
Total Bill	Electric	Gas	Water*	Wastewater	
Residential	4.97%	-5.07%	-1.17%	35.89%	4.57%
Commercial	-6.84%	-29.94%	4.51%	63.77%	0.58%
Industrial	-7.06%	-12.49%	9.43%	53.99%	-19.39%

Negative number indicates better than average regional rates, positive indicates higher than average regional peer utility

*Water Rates increased by 12% in both 2011 and 2012 related to the Southern Delivery System project.



Office of the City Auditor Rate Competitiveness Review

Our review focused on rate comparison reporting to governance and customers. We examined CEO Performance measures only as they related to rate competitiveness reporting.

AUDITORS RECOMMENDATION

- Colorado Springs Utilities should report to Utilities Board, citizen owners and customers annual price competitiveness by customer class and by electric, natural gas, water and wastewater service.
- Multi-year price competitiveness data by customer class and service should be reported.

COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities partially agrees with the recommendation. For the Regional Survey, this information will be reported in the suggested format. However, for the National Survey, we are only reporting industrial price competitiveness every year and commercial every three years; therefore, Colorado Springs Utilities will report in this format in the years when this data is accumulated.



OBSERVATION 3 - THE NATIONAL SURVEY DID NOT APPLY CONSISTENT ASSUMPTIONS

Daily access charge and sales tax calculations were not consistent in Colorado Springs Utilities national rate comparison. Colorado Springs Utilities made adjustments to the data prior to submission to the Utilities Board. These adjustments resulted in slightly lower rankings but did not change the performance rating of needs improvement.

After adjustments, Colorado Springs Utilities ranking as compared to 22 peer cities was as follows:

Residential (17th vs. 16th), commercial (10th vs. 8th), industrial (8th vs. 6th) where a ranking of 1 indicates the lowest rates.

Colorado Springs Utilities did not apply state and local sales tax to their tariff rates in the rate comparison but applied local and state sales tax to their peer utilities rate components. Colorado Springs Utilities subsequently made the correction to the 2012 results reported to Utilities Board. The sales tax correction changed the rankings of competitiveness with peer utilities, but did not change the overall scorecard rating of needs improvement.

Additionally, in our review of the national survey, we noted that assumptions were not applied consistently. Daily access charges were applied either at 30 days or 30.4 days. Based on our review, Colorado Springs Utilities made corrections to use 30 days for all daily access charges. This change was not significant to the overall rankings of Colorado Springs Utilities to its peer utilities.

AUDITORS RECOMMENDATION

Sales tax should not be included in either Colorado Springs Utilities rate calculations or in calculations of peer utility rates.

Colorado Springs Utilities should create a set of assumptions to be consistently applied to the national city comparison for both Colorado Springs Utilities and the other peer utilities.

These assumptions should be annually reviewed by management, as was the process for the regional rate comparison.

COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities agrees with this recommendation and these improvements have been incorporated into our rate comparison process.



ATTACHMENTS

APPENDIX A – NATIONAL 22 CITIES SURVEYED

22-City Survey Population					
1	Albuquerque	9	Oklahoma City	16	Salt Lake City
2	Austin	10	Omaha	17	*San Antonio
3	Boise	11	Orange County	18	San Diego
4	Denver	12	Phoenix	19	San Francisco
5	Fort Collins	13	Portland	20	Spokane
6	Huntsville	14	Pueblo	21	Tucson
7	Kansas City	15	Reno	22	Wichita
8	Los Angeles				

*The City Auditors Office notes that the City of San Antonio was not included by Colorado Springs Utilities for the industrial rate class as Texas has an unregulated market and rates were significantly lower than the rest of the population.

APPENDIX B – EXCERPT FROM REPORT TO UTILITIES BOARD ON RATE COMPETITIVENESS

Indicator: Regional Utility Price Competitiveness Index

Strategic Alignment: F2: Keep Rates Competitive

Frequency of update: Quarterly (reported as a quarterly average for each customer class)

Target Range: +/- 5% (of regional average)

Performance: The 2012 year end result is a score of 3.0. This translates to a performance rating of “meets expectations.”

- The residential class scored 3.30% above the regional average. This translates to a performance rating of “meets expectations,” earning a score of 3.
- The commercial class scored 0.69% below the regional average. This translates to a performance rating of “meets expectations,” earning a score of 3.
- The industrial class scored 12.55% below the regional average. This translates to a performance rating of “exceeds expectations,” earning a score of 4.
- The third quarter result for 2012 is an overall score of 3 [(3+3+4)/3=3.33] which equals “meets expectations.”



Office of the City Auditor Rate Competitiveness Review

Indicator: Economic Development Price Competitiveness

Strategic Alignment: F2: Keep Rates Competitive

Frequency of update: Annually

Target Range: Ranked 50% - 31% of surveyed communities

Performance: The 2012 result was a score of 2.33 which translates to a performance rating of “improvement necessary.”

- The residential class scored 17th lowest of the 23 cities surveyed, which places it in the lowest 74% of the surveyed communities. This translates to a performance rating of “fails expectations,” earning a score of 1.
- The commercial class scored 10th lowest of the 23 cities surveyed, which places it in the lowest 43% of the surveyed communities. This translates to a performance rating of “meets expectations,” earning a score of 3.
- The industrial class scored 8th lowest of the 22 cities surveyed, which places it in the lowest 36% of the surveyed communities. This translates to a performance rating of “meets expectations,” earning a score of 3.
- The 2012 overall results is an average of four quarters of performance for each customer class $[(1+3+3)/3=2.33]$ which equals “needs improvement.”

APPENDIX C – REGIONAL RATE COMPARISON PEER UTILITIES

Regional Utilities in Regional Rate Comparison:				
Utility	Electric	Gas	Water	Wastewater
Xcel Energy	X, Denver	X, Denver		
Black Hills Energy	X, Pueblo	X, Pueblo		
Mountain View Electric Association	X			
Aurora			X	X
Denver			X	X
Fort Collins			X	X
Lakewood			X	X
Pueblo			X	X

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. 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.