



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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## 19-11 Monitoring Utilities Board Instructions I-2 Financial Condition and I-8 Asset Protection

May 2019

### **Purpose**

The purpose of this high level review was to determine whether Colorado Springs Utilities complied with Utilities Board (UB) Instructions to the Chief Executive Officer, Policy I-2 Financial Condition and Activities, and I-8 Asset Protection. In addition to verifying management's 2018 quarterly monitoring reports dated August 15 2018; November 5, 2018; March 12, 2019; and April 8, 2019; our objectives included assurance that any known violations were reported to the UB.

### **Highlights**

Based on our review, we conclude that Colorado Springs Utilities and the Chief Executive Officer were in compliance with UB Instructions to the Chief Executive Officer, Policy I-8, Asset Protection for the calendar year 2018. We conclude Utilities and the Chief Executive Officer were in compliance with Policy I-2, Financial Condition and Activities, with the exception of I-2, requirement 2, which requires reporting of all contracts over \$500,000. This review identified two observations for improving the reported results to UB. See page two of this report for observation details.

The Excellence in Governance Policy Manual was approved by Utilities Board and became effective May 16, 2018. For the first quarter of 2018, Financial Condition and Activities were reported to UB under Executive Limitation (EL) 7. We reviewed compliance with EL 7 for the first quarter of 2018, as reported by management on May 11, 2018.

The Office of the City Auditor completed our review as directed by the UB. Under Policy Guidelines—G-3 Compliance Report Frequency and Method, the Office of the City Auditor is required to monitor compliance with Policies I-2, Financial Condition and Activities, and I-8, Asset Protection, annually. Due to changes in the policies, this report is the first report where we reviewed Policy I-2, requirement 2 related to contracts over \$500,000.

Policy I-2 states, "The Chief Executive Officer shall direct that financial condition and activities, and actual expenditures are consistent with Board expected results." Policy I-8 states, "The Chief Executive Officer shall direct that enterprise assets are protected, adequately maintained, and not unnecessarily risked." Our audit included verification of the accuracy and reliability of statements made in the monitoring reports prepared by Colorado Springs Utilities for the UB. Procedures included obtaining supporting documents, policies, reports, and data recalculations.

### **Management Response**

Management was in agreement with our recommendations. Management responses may be found on page two of this report.

### **Recommendations**

1. When reporting on I-2, Utilities should report all contracts over \$500,000 to ensure completeness of the report to governance.
2. Utilities should review the I-2, requirement 2 reporting criteria internally and with governance. Utilities should ensure criteria is well defined to meet the UB needs.

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## 19-11 MONITORING UTILITIES BOARD INSTRUCTIONS I-2 FINANCIAL CONDITION AND I-8 ASSET PROTECTION

### **Observation 1**

- Three contracts over \$500,000 issued in 2018 were not included in quarterly reports to the UB.

Criteria for reporting per Procurement and Contract Services was standard contracts in which both parties sign, known as long form contracts. We identified three contracts meeting this criteria that were not included in 2018 quarterly reports to UB.

Excellence in Governance policy I-2, provision 2 states: *Inform the Utilities Board of contracts that have been issued over \$500,000.*

### **Management Response:**

We agree with the recommendation. Two of the three contracts mentioned in this observation were not correctly indicated as Long Form (LF) subtype, so the report excluded these two contracts. It could not be determined the reason the third contract mentioned in this observation was excluded from the report. Colorado Springs Utilities will develop improved processes to accurately report all contracts over \$500,000 issued during the quarter being reported. This improved process will be implemented by 6/30/19.

### **Recommendation**

When reporting on I-2, Utilities should include all contracts over \$500,000 issued during the quarter to ensure completeness of the report to governance.

### **Observation 2**

I-2, requirement 2 had not been sufficiently defined. Under the current reporting criteria, a Utilities contract in excess of \$500,000 may not be reported to the UB.

Under the current Utilities reporting criteria, many contracts over \$500,000 were not being reported to governance. Contracts were issued for \$1 and subsequent task orders were released against the contract, which could exceed \$500,000, but these contracts were not considered when preparing the I-2 report. Our review found an example of two task orders released on a \$1 contract totaling approximately \$600,000 related to a significant project. The \$600,000 contract was not reported to UB. Utilities uses the \$1 contract amount as a control mechanism in the purchasing system with further review when task orders are issued. The system used to gather data for the I-2 report does not consider contracts that start at a value less than \$500,000.

Effective February 20, 2019, the I-2, requirement 2 policy was changed to eliminate quarterly reporting of blanket contracts issued. Minutes from the Finance and Program Management committees as well as UB meeting recommending the elimination of blanket contracts from the I-2 reporting indicated these contracts often are authorized to spend over \$500,000, but do not reach that amount and many are for supply chain purchases. However, we found consulting and other service agreements exceeding \$500,000 that were eliminated from reporting under this change and such information was not clearly communicated per the minutes.

### **Management Response:**

We agree with the recommendation. Utilities enters Task Order type Blanket Contracts into Maximo (the purchasing system) at a value of \$1.00. This is done for two reasons. One, because there has been no formal commitment of funds for a project until a Task Order is issued. Two, Task Order type Blanket Contracts can only be used by PCS issuing Task Orders, and the practice of entering this type of Blanket Contract into Maximo at \$1.00, and subsequently increasing the value to match issued Task Order commitments, controls unintended misuse by non-PCS employees. Colorado Springs Utilities will revise report criteria to comply with the revised I-2, requirement 2. These changes will be made by 6/30/19.

### **Recommendation**

Utilities should review the I-2, requirement 2 reporting criteria internally and with governance. Utilities should ensure criteria is well defined to meet the UB needs.