



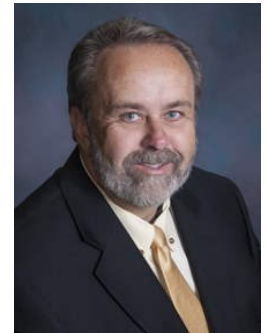
2017 Office of the City Auditor Annual Accomplishments

Date: May 17, 2018

To: President Skorman, President Pro-Tem Gaebler, City Council, and Citizens

Re: 2017 Accomplishments Report

The Office of the City Auditor provides value to the citizens of Colorado Springs by providing an independent, objective, and comprehensive review of the operations of the City and its enterprises. We evaluate financial controls along with the efficiency and effectiveness of operations. We look for ways to improve systems and activities. The results of these reviews (audits) are reported publicly on our website.



Denny L. Nester, City Auditor

In 2017, we issued our final report on the Southern Delivery System. The Southern Delivery System was a multi-year project that provides redundancy for water. The project included a pipeline, connection to the reservoir, three pump stations, and a water treatment plant. At the time of our report, we noted that the project was completed on time and under budget. We reported savings of over \$400 million compared to original budget with financing costs that will be achieved by the completion of phase 1 in 2020. The Performance Group was started to provide continuous monitoring of this project. Our involvement helped to make the project successful.

During 2017, the Performance Group continued to identify opportunities to improve coordination between the City and Colorado Springs Utilities after the passage of Ballot Measure 2C, which funded road improvements. As a result of the effective coordination, there was a measurable decline in water main breaks related to paving operations along with development of effective, integrated, City/Utilities planning sessions and tools.

The Information Technology Group worked with the Information Technology Departments of both the City and Colorado Springs Utilities to complete audits related to Governance, Cybersecurity, Change Management, and Application Systems Controls. We identified areas where some improvements could be made, but in the interest of maintaining a secure computing environment, we did not disclose the details of our reviews. We plan to follow-up on observations made to ensure agreed upon actions are taken to improve the security of technology and related operations.

The Financial Group provided assurance in many areas that are required by City Code such as the audit of Liability Claims and Workers' Compensation Reserve Funds. At Colorado Springs Utilities, they reviewed the proposed rate cases to ensure they are prepared accurately—using an approved, consistent methodology. For the City, the group completed many traditional audits such as Procurement and Cash Disbursement.

The Office of the City Auditor worked together to add value to the operations of the City and its enterprises. We maintained our independence and objectivity while providing information and assurance to City Council and the Utilities Board on issues that came before them. We are honored to serve our community.

Respectfully submitted,

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

Learn more at coloradosprings.gov

City Council's Office of the City Auditor

"...ensure management actions have been effectively implemented."

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.

The Audit Committee assists City Council in fulfilling oversight responsibilities for the City's financial reporting processes, systems of internal control, compliance with legal and regulatory requirements, and internal and external audit processes, including those for all of the City's enterprises.

The 2017 Audit Committee was composed of two members of City Council; Merv Bennett and Andy Pico; and three members from the business community; Marvin Fiala, Dave Wood and Brian McAllister served during 2017. Welensky Nathan and W. Paul Bradley served as committee alternates. Meetings are generally held on the third Thursday of each month at City Hall.

Providing Assurance to the City and Its Enterprises

The Office of the City Auditor is divided into three groups: Financial, Information Technology, and Performance. All reports may be found at <https://coloradosprings.gov/city-auditor/page/2017-audit-reports>. Below is a list of the audits and studies completed by each group in 2017.

Financial Group Audits: Colorado Springs Utilities 2018 Rate Case Audit; Utilities Water Forecast 2018; Utilities Purchasing Card; Utilities Annual External Report on Executive Limitations (4) Asset Protection and (7) Financial Conditions and Activities; Utilities Financial Forecast Model; Utilities Electric & Gas Cost Adjustment (x5); City and Utilities Liability Claims and Workers Compensation Reserve Funds; City Cash Disbursements. City Parks, Recreation and Cultural Services Cash Receipts; City Procurement; City Procurement Card 2016 Monitoring;

Information Technology Audits: Colorado Springs Utilities Pole Attachments; Utilities Cybersecurity; Utilities Information Technology Change Management; Utilities Energy Trading and Risk Management Application; City Information Technology Contractors Holiday Payments; Monitoring of City Information Technology Governance and Outsourcing; Security of Fire Department Electronic Information.

Performance Group Audits: Colorado Springs Utilities Capital Improvement Projects; Utilities Nixon Emission Controls (x2); Utilities Allowance for Funds Used During Construction; Utilities SDS Monitoring; Utilities Annual External Report on Executive Limitation 11 - Enterprise Risk Management; Utilities Verification of Qualifying Stormwater Expenses; City and Utilities Fleet Savings Verification; City and Utilities Streets Maintenance Operations and Coordination; City Ballot Measure 2C Maintenance of Effort Spending (2016).

In addition to the audits that result in public reports, we performed projects that did not result in a report. For example, we assisted the external financial auditors of both the City and Colorado Springs Utilities. We also attended City Council, Utilities Board, and other committee meetings to monitor activities and provide assistance when appropriate. We were also called upon to provide some assistance to management as consultants, which did not result in a public report.

Who Audits the Auditor?

The Office of the City Auditor complies with the Quality Assurance standards of the Institute of Internal Auditors (the IIA). These standards are the International Standards for the Practice of Internal Audit (IPPF), or 'Red Book' Standards. We accomplish this in the following ways:

Quality Assurance Program— standard 1300.

We have designed policies and procedures to build quality into our audit projects. For example, planning documents must be prepared, and workpapers are reviewed to ensure that sufficient evidence exists to support our conclusions.

Internal Assessments— standard 1310

To help ensure a quality product, we perform internal assessments on an on-going basis. This includes a two step process.

- 1) We complete quality procedures such as checklists on every audit to ensure work is complete and procedures were followed.
- 2) Annually, each audit staff member is assigned to complete two Quality review checklists used by external reviewers.

Reporting on the Quality Program— standard 1320

Through our annual accomplishments report, we report to the Board and Stakeholders that Internal Assessments indicate we are in compliance with standards.

External Assessments— standard 1312

Every five years, an independent party conducts a review of the City Auditor's Office to assess compliance with the IPPF. In the fall of 2018, an independent party will review the City Auditor's work from 7/1/2013 through 6/30/2018 for compliance.

The external assessment report will be provided to the Audit Committee and will be posted on our website. The report from the external quality assessment for the period ending 6/30/2013 may be found on our website:

coloradosprings.gov/city-auditor

In addition to formal Quality Assurance processes, the City Auditor's Office is committed to continuous improvement. Some of the activities that help to ensure continuous improvement include:

Training and certifications

Each auditor completes a training plan that is approved by management and includes at least 40 hours of training.

Qualified and credentialed staff— Most City Auditor staff members hold advanced degrees and credentials such as Certified Public Accountant, Certified Internal Auditor.

Feedback from stakeholders

Surveys are provided to stakeholders to solicit feedback on the efficiency and effectiveness of the audit team.

Audit Committee Oversight

The City Auditor's Annual Audit Plan, Budget, and Reports are submitted to the Audit Committee, which includes both City Council members and citizen representation.

Internal Quality Improvement Teams

Beginning in 2016, we began quality improvement efforts within our department to identify areas where efficiencies could be gained.

Hopefully, this summary provides some insight into the City Auditor's Office Quality Improvement program and you will be able to answer the question 'Who audits the auditor?'

Providing Educational Opportunities

Continuing education is important for many reasons and provides benefits to both the individual auditor and organization. Besides enabling auditors to keep current with professional and industry practices, well trained auditors tend to be more productive. In 2017, the office logged over 500 hours of continuing education. In addition to attending workshops, seminars, and conferences, staff participate on boards and committees for local and national organizations. The Office of the City Auditor serves as a sponsor organization for the National Association of State Boards of Accountancy (NASBA) allowing us to provide Continuing Professional Education (CPE) programs working with other local organizations such as the Colorado Springs Institute of Internal Auditors (CSIIA), the Colorado Springs Association of Certified Fraud Examiners (ACFE) Chapter, and the Public Agency Audit Leaders Roundtable (PAALR), which includes audit leaders from many agencies such as Denver Water, Denver International Airport, other cities, and educational institutions.



Colorado Springs Chapter #133

Staffed for success in 2017

Denny Nester, MBA, CPA, CIA, CFE, CGAP, CGFM, City Auditor
Jacqueline Rowland, CPA, CFE, PMP, Assistant City Auditor
Dale Rickard, CISA, CDP, IS Audit Supervisor
Sally Barber, CPA, CFE, CIA, Financial Audit Supervisor
Vickie Classen, CPA, CIA, CGAP, CGMA, PMP, Performance Audit Supervisor
Shawn Alessio, CPA, CFE, Senior Auditor
Jennifer Carpenter, CPA, CIA, CFE, Senior Auditor
Mark Stidd, MSM, CISA, IS Auditor
Bridgit Le Vie, MS Accounting, Senior Auditor
Tom Baird, MBA, Senior Auditor
Sandy Snee, CPA, IFRS, IS Auditor
Fang Judkins, MS Accounting, CPA Auditor II
Linda Helsley, MS Finance, MS Project Management, Auditor II



Fraud hotline

The Office of the City Auditor operates a fraud hotline inviting employees and the public to report suspected fraud, waste, or abuse of City, Utilities, or Airport resources. Waste and abuse can include improper or misuse of authority, property, equipment or records, waste of public funds, or other irregularities. Fraudulent acts might include misappropriation of funds, accepting or seeking anything of material value from consultants, contractors, or vendors, stealing City property, disclosing confidential information to outside parties, or profiteering as a result of insider knowledge of City activities.

In 2017, the fraud reporting program for the Office of the City Auditor received 34 inquiries. Of those, 6 issues were reviewed with City of Colorado Springs management for response. The remainder were not related to City resources and, consequently, were referred to the Colorado Springs Police Department or to other state and federal agencies.

A Duty to Report (ADTR)

Report anonymously online using a web-based form at coloradosprings.gov/cityfraud

The telephone hotline's caller ID has been disabled to allow for anonymous reporting. 719-385-ADTR.

The Hotline PO Box provides another way to anonymously report fraud, waste and abuse. Address mail to:

Denny Nester, City Auditor
P.O. Box 2241
Colorado Springs, CO 80901

E-mail is not truly anonymous, but may be sent to CityAuditManagement@springsgov.com.

