



Office of the City Auditor

Date: August 21, 2006
To: Honorable Mayor and Members of City Council
Re: 05-213 – Northern Water Reclamation Facility Capital Project Review

AUTHORIZATION AND BACKGROUND

City Code 1.2.706 states: "the City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council."

To assist us in meeting this requirement, we began a Construction Monitoring program in 2006. Prior to the beginning of that program, we provided limited review of selected capital projects. The Northern Water Reclamation Facility (NWRf) was one project we reviewed. This limited review is less formal than a Full System Audit and the reporting consists of this letter.

OUR REVIEW

Our current review focused on four of the 12 risks associated with capital projects that were identified in preliminary work done in prior years. The four risks that were addressed in this review include:

1. The project costs may exceed budget.
2. Change orders may be higher cost rates or for inappropriate items.
3. Excessive time may be taken to complete the project.
4. Construction liabilities may not be adequately mitigated.

Based upon our review, we noted four areas of concern.

We have made no determination as to which findings are more important than others so they are not necessarily listed in order of importance.

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1. Travel policies were not followed.

A car rental receipt included charges for Loss Damage Waiver, Supplemental Liability Insurance, Uninsured and Underinsured Motorist Protection and Personal Protection Plan for a total of \$130.14. Per Springs Utilities' travel administration under Rental Cars, "Rental car insurance should be declined on rental agreements unless traveling outside of Colorado Springs Utilities' insurance coverage area. Colorado Springs Utilities' insurance coverage is valid in all 50 states, Canada, and Puerto Rico."

The car rental receipt also included charges for prepaid fuel for \$52.02. The vehicle was driven only 90 miles. Additionally, Springs Utilities paid \$72.00 for covered garage parking at Denver International Airport for a four day stay. The current rates for the economy lot, with free airport shuttles, would be \$20.00 for a four day stay. While these two items are not specifically addressed in the travel administration policy, they did not appear to be an economical use of Springs Utilities resources. The Travel Administration Policy, 10003 Version 3 dated July 28, 2005 states, "The traveler is expected to show good judgment and proper regard to economy in incurring travel and meeting expenses."

Auditor's Recommendation:

We recommend that management ensure Springs Utilities employees are aware of the policies and procedures governing travel and that they are followed. Recognizing the travel policy promotes good judgment and economy, approvers of travel expenditures should question charges such as those identified above, which do not appear to be economical for Springs Utilities rate payers. If there are reasonable explanations for what may appear to be poor judgment calls or uneconomic choices, those explanations should be documented by the traveler and evaluated by their manager.

Springs Utilities Response:

The NWRP Project Manager has reminded the employee of current policies and procedures regarding travel. In addition, the employee will read the Travel Administration Policy # 10003 version 03. The employee was also reminded to use good judgment regarding travel expenditures and to avoid uneconomical choices. The travel policy was also discussed with plant employees at the Treatment Plant staff meeting.

2. Springs Utilities should review the language used in contracts that allow for markups of actual expenses.

On an invoice received from the engineer, there was a charge from a Subcontractor that allowed for Housing of \$1,200 per month and Mileage of \$400.95 in addition to the contract amount for labor. This contract allowed for a 10% markup of non-salary expenses directly attributable to the Subcontracted Services. The markup amount was \$160.10.

The contract between the engineer and Springs Utilities states that other direct charges, including outside services, will be charged at actual cost plus 10%. This same invoice was billed to Springs Utilities with a 10% markup. This resulted in the housing and mileage being marked up another \$176.10. The initial \$1,600.95 for housing and mileage has now cost Springs Utilities \$1,937.15. We believe the total markup of \$336.20, or 21%, for housing and mileage is not an appropriate use of Springs Utilities resources.

Auditor's Recommendation:

We recommend that contracts be reviewed to ensure that the terms of the contracts provide the best value and meet the intended needs of Springs Utilities.

Springs Utilities Response:

Springs Utilities agrees with the Auditors recommendation. Management has reinforced the importance for project managers through one on one staff meetings to maximize competitive bidding processes and to negotiate contracts with increased vigor. After contracts are reviewed they will be signed or initialed by the reviewer.

3. Some capital projects costs were overstated.

The engineer included a \$200.00 invoice for steam cleaning the carpet in the office next to the work site. This invoice was marked up 10% to Springs Utilities and charged to the project. This charge should have been paid by the engineer as part of their expense. It was not a direct cost to the project. When Springs Utilities authorizes charges of this nature, they should be expensed and not included in capital project costs. Since this was not a direct operating expense, it should not have been marked up 10% or \$20.00. The engineer also billed \$107.49 for work boots for one of their employees. Again, this is not a direct operation expense. It should be noted that during our review, Springs Utilities received credit for both of these items.

Auditor's Recommendation:

We recommend that Springs Utilities management review the monthly charges to determine if they are appropriate and coded to the correct general ledger account.

Springs Utilities Response:

Project Managers review monthly charges before payment is made. In this instance, the steam cleaning of the carpets and the purchase of the work boots were missed. During the weekly staff meeting appropriate review of the invoices will be emphasized to Project Managers to ensure that charges conform to project provisions.

4. Springs Utilities could not provide all the invoices requested by our office for review. We received 27 out of 40 invoices.

Our sample was selected from the *Activity Report* which did not always contain the Vendor name. In some instances it showed a description for parts received or services performed. The Project Manager has been working with Accounts Payable to locate the invoices.

Auditor's Recommendation:

We recommend that the *Activity Report* be reviewed to see if the information flowing through could be updated to reflect the Vendor name and a description. This would allow users of the report to see who was billing the project. It was also suggested by the Project Manager that the report be modified to show the detail for charges for materials transferred out of inventory.

Springs Utilities Response:

Springs Utilities agrees with the Auditor's recommendations. To address this issue, the Project Manager met with Sourcing and Contracts and the Warehouse staffs to review the Auditor's finding and recommendation. They are currently examining how to add a descriptive explanation, including the vendor name, to the activity report. The system does not currently have this capability. The Project Manager will submit a request to Information Technology to conduct a feasibility study.

In conclusion, it should be noted that our expenditure review was limited to a small amount of transactions, therefore, we are not able to quantify the magnitude of items mentioned in Findings 1 – Travel Policies, Finding 2 – Mark-up of Expenses and Finding 3 – Overstatement of Capital Costs.

As always, please let me know if you have any questions.

Sincerely,



Jeff Litchfield
City Auditor

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