



**CITY OF COLORADO SPRINGS
OFFICE OF THE CITY AUDITOR**

**08-09 – COLORADO SPRINGS STORMWATER
ENTERPRISE AND STREETS RECONCILIATION**

PUBLIC REPORT

August 13, 2008

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City of Colorado Springs



Office of the City Auditor

Public Report

Date: August 13, 2008

To: Honorable Mayor and Members of City Council

Re: 08-09 – Colorado Springs Stormwater Enterprise and Streets Reconciliation

We performed an audit of the transfers between the Colorado Springs Stormwater Enterprise (SWENT) and the Streets Division (Streets) of the General Fund for the period ending December 31, 2007. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors.

The purpose of this audit was to examine the methodology used to determine the amount of transfers between SWENT and Streets. We verified the methodology was reasonable and related calculations were accurate. We also reviewed the underlying assumptions that supported the methodology used.

The original amounts charged to SWENT contained two errors totaling \$297,027.29 in over charges. The first error was for \$262,405.70 and involved double charges related to fuel and maintenance of vehicles (finding 5), and was discovered prior to the City closing its books for 2007. The second error was for \$34,621.59 and was discovered by Streets when they were unable to provide backup for some of the numbers in their calculations (finding 6). This error was not discovered until after the books were closed for 2007 and will need to be an adjustment to the 2008 transactions.

During the course of our audit, we did identify areas where internal controls could be strengthened and have presented those findings and our recommendations.

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

Sincerely,

Jeff Litchfield
City Auditor

cc: Penelope Culbreth-Graft, DPA, City Manager

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Table of Contents

08-09 – Colorado Springs Stormwater Enterprise and Streets Reconciliation

PUBLIC REPORT

	Page
Introduction	
Authorization	2
Organizational Placement.....	3
Scope and Methodology	3
Background.....	3
Commendable Practices.....	4
Overall Opinion	4
For the Future	4
 Findings, Recommendations, and Responses	
1. Managerial controls over employee time and equipment charges were lacking	5
2. Time cards of supervisors were not reviewed by an immediate supervisor	6
3. There was no segregation of duties between the tracking and reconciliation of expenses	7
4. Stormwater Enterprise (SWENT) did not review the account administered by the Streets Division for accuracy of dollars spent	8
5. SWENT was double charged for fuel and maintenance on city-owned vehicles	9
6. The Streets Division initially overcharged SWENT for salaries of personnel who worked on SWENT projects	10
7. The Streets Division changed the method of recording equipment time for 2008	11
 Appendix	
A SWENT Accomplishments	12

Acronyms and Abbreviations Used in This Report

SWENT	Stormwater Enterprise
Streets	Streets Division
TRAX	A database system used to record time and equipment administered by Streets

Introduction

AUTHORIZATION

We performed an audit of the transfers between the Colorado Springs Stormwater Enterprise (SWENT) and the Streets Division (Streets) of the General Fund for the period ending December 31, 2007. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the City Code, and more specifically parts 703, 705, and 706, and Part 709 (B) and (C) of the Code, which state:

1.2.703: ENSURE PUBLIC ACCOUNTABILITY:

The City Auditor shall ensure that administrative officials are held publicly accountable for their use of public funds and the other resources at their disposal. The City Auditor shall investigate whether or not laws are being administered in the public interest, determine if there have been abuses of discretion, arbitrary actions or errors of judgment, and shall encourage diligence on the part of administrative officials.

1.2.705: DETERMINE EFFECTIVENESS AND EFFICIENCY OF PROGRAMS:

The City Auditor shall determine the extent to which legislative policies are being efficiently and effectively implemented by administrative officials. The City Auditor shall determine whether City programs are achieving desired objectives. The City Auditor shall review the administrative control systems established by the enterprises, Division, or group managers and by the City Manager, Utilities Executive Director, and Memorial Hospital Executive Director and determine whether these control systems are adequate and effective in accomplishing their objectives.

1.2.706: EXAMINE BOOKS, RECORDS:

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, Division, group, enterprise, political subdivision, and organization, which receives funds from the City or under the direct or indirect control of the City Council. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files, and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper, or record in the custody of that person or public official.

1.2.709: MAKE PERIODIC REPORTS TO COUNCIL:

- B. Information of proposals deemed expedient in support of the City's credit, and recommendations for lessening expenditures, for promoting frugality and economy in City affairs and for an improved level of fiscal management;
- C. Matters concerning the effectiveness and efficiency of the programs and operation of the City;

Introduction

ORGANIZATIONAL PLACEMENT

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. The audited entities in this audit were SWENT and Streets. Both of these entities are under the authority of the City Manager, who is also appointed by City Council.

SCOPE AND METHODOLOGY

The objective of this audit was to examine the methodology used to determine the amount of transfers between SWENT and Streets. We verified the methodology was reasonable and related calculations were accurate. We also examined the underlying assumptions that support the methodology used.

We conducted our audit in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. Our audit included such tests of records and other supporting documentation, as we deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests were performed. Sufficient competent evidential matter was gathered to support our conclusions.

BACKGROUND

In late 2005, City Council approved an ordinance establishing a stormwater enterprise in Colorado Springs. The enterprise is a city-owned business that funds stormwater drainage capital improvement projects, maintenance and operations, and federal permit requirements in the City. The enterprise is supported by fees paid by property owners based on the type of property, impervious surface on the property, and density of the property.

The mission of SWENT is to "Provide storm water programs, services, and support with integrity and professionalism through active partnership and involvement with the community."

The mission of Streets is to "Ensure public safety for the citizens of Colorado Springs by providing quality maintenance and rehabilitation of public streets and drainage ways by responding to public requests."

To promote efficiency, Streets administered a portion of the SWENT funds in 2007. Employees of Streets were used to complete SWENT projects. Employees of SWENT were used to assist with Streets projects such as Snow and Ice Control. All time worked by both groups of employees was recorded in a computer database (TRAX) administered by Streets. The TRAX database also recorded the use of equipment. The information in the database was the basis for the equitable distribution of costs related to both employee and equipment costs. Funds were transferred between the two entities based on this distribution of costs.

Introduction

COMMENDABLE PRACTICES

SWENT began operations in earnest in 2007. We believe they did a commendable job of starting the operation, essentially from scratch, with many projects completed, or reaching substantial completion, by the end of the year. In addition, because of the cooperation and coordination between the two operations, the City enhanced their response to storm events. SWENT assisted Streets during snowstorm events and Streets assisted SWENT during rainstorm events.

OVERALL OPINION

The original amounts charged to SWENT contained two errors totaling \$297,027.29 in over charges. After the correction of these two errors, we conclude the methodology used to determine the amount of money to transfer between SWENT and Streets was reasonable.

Details on the two errors are:

\$262,405.70	Double charges related to fuel and maintenance (finding 5)
34,621.59	Errors in the original calculation identified by Streets when they were asked to provide backup for the numbers in their calculation (finding 6)
\$297,027.29	Total

The \$262,405.70 was identified and corrected prior to the City closing its books for 2007. The \$34,621.59 will be an adjustment to the 2008 transfer.

During the course of our audit, we did identify areas where internal controls could be strengthened and have presented those findings and our recommendations.

FOR THE FUTURE

The Office of the City Auditor will review the 2008 activity to ensure the transfers between the entities are accurate and reasonable. This review will take place during 2008 and in early 2009.

For the findings that follow, we have made no determination as to which findings are more important than others. Therefore, the findings are not listed in order of importance.

Findings, Recommendations, and Responses

1. Managerial controls over employee time and equipment charges were lacking.

Streets uses a computer database (TRAX) to record time worked and equipment use. The information in the database was the basis for the distribution of costs related to both employee and equipment costs.

We found errors in the data entered into the TRAX database. We tested two months of time cards for four employees. We found that most entries into the database were accurate and appeared to be reflective of the activities that occurred. Most entries were adequately supported. However, we found some equipment numbers were listed on time cards, but no hours were allocated to that equipment. We also found equipment that was charged longer than the person worked on a specific job, and times where equipment was entered in TRAX; however, there was no documentation on the time cards to support the entry. While most of these errors were relatively insignificant, the possibility exists that a significant error could occur and go undetected.

Controls should be in place to ensure proper time and equipment charges for each entity. These charges can be used to equitably distribute costs between Streets and SWENT.

Auditor's Recommendation:

We recommend Streets and SWENT strengthen managerial controls for reviewing time cards for accuracy of codes used and equipment usage. Supervisors should document their review and approval of all time cards and equipment usage records prior to the entry of data into the TRAX system. All corrections should be documented and explained.

Streets Division Response:

Staff agree with this finding and the need for accuracy. The current Stormwater Maintenance tracking procedures require the supervisor to check and initial all time cards before submittal to time keeping personnel. The need for accuracy has also been emphasized with the time keeping personnel. In addition, any potential revisions or corrections to time cards are reviewed with employees and confirmed prior to submittal with the time reporting system.

In early 2008, a Senior Office Specialist was hired to handle many of the administrative tasks associated with stormwater maintenance activities related to SWENT. This employee now handles all timecard entry as well as verifying all codes used by employees. With this employee concentrating on just SWENT time card entry, increased accuracy is expected. Supervisors and time card entry personnel will receive periodic refresher training in proper procedures to ensure the accuracy of time reporting.

Findings, Recommendations, and Responses

2. Time cards of supervisors were not reviewed by an immediate supervisor.

In 2007, we identified one supervisor who had recorded 779 hours of overtime. These hours resulted in \$35,527.21 being paid to the supervisor as overtime wages. We found that no one was reviewing this supervisor's time cards.

Time cards should be reviewed by an immediate manager to ensure proper time coding and equipment usage.

Auditor's Recommendation:

We recommend that all time cards, including supervisors, be reviewed by their immediate supervisor for accuracy and appropriateness.

We also recommend the amount of overtime worked by supervisors be reviewed. Management should assess the situation to see if additional personnel should be hired to better address the workload.

Streets Division Response:

We agree with this recommendation. In fact, procedures were initiated before the audit to remedy this problem. Management level personnel must review all overtime worked by supervisors. We recently took this one-step farther and have instructed time card entry personnel that any supervisor time cards with overtime must be initialed by their direct supervisor or other management personnel to ensure documentation that overtime is being reviewed.

Findings, Recommendations, and Responses

3. There was no segregation of duties between the tracking and reconciliation of expenses.

An operations manager of Streets tracked and recorded all expenses from the SWENT fund, which Streets administered. This manager also performed the reconciliation at year-end that determined the amount SWENT owed Streets for 2007. During our review, we identified two errors (see findings 5 and 6), which may have been avoided or recognized earlier if the duties had been performed by two individuals with different perspectives. Irregularities are easier to identify when reviewing the work of others.

Auditor's Recommendation:

With Streets being responsible for tracking expenses, along with time and equipment use during the year, we recommend that a SWENT employee perform the reconciliation between Streets and SWENT at year-end. This reconciliation will better ensure appropriate segregation of duties related to transfers between funds.

Streets Division Response:

We agree with this recommendation. The Streets Division will provide whatever assistance necessary to SWENT personnel in all reconciliation work.

SWENT Response:

SWENT and Streets Division staff have conducted preliminary discussions and informal review of expenditures. A formal process including review on a regularly-scheduled basis (i.e. monthly or bi-monthly) will be established in August to ensure appropriate review and coordination. SWENT staff will perform the reconciliation at year-end to ensure appropriate segregation of duties related to transfers between the SWENT and General Fund.

Findings, Recommendations, and Responses

4. SWENT did not review the account administered by Streets for accuracy of dollars spent.

SWENT did not check the accuracy of dollars spent for the SWENT account administered by Streets. We were told that SWENT pulled a PeopleSoft report monthly and reviewed it to ensure there were no abnormal amounts charged to certain line items. A specific account was not pulled or invoices checked to ensure the money Streets reported as spent on SWENT projects actually occurred.

Auditor's Recommendation:

We recommend that SWENT oversee and review the accounts that Streets administers for SWENT to ensure proper use of their money.

SWENT Response:

SWENT and Streets Division staff have conducted preliminary discussions and informal review of expenditures. The Stormwater Business Administrator currently conducts a monthly review of Peoplesoft expenditure data to identify potential fund expenditure issues. A formal process including review on a regularly-scheduled basis (i.e. monthly or bi-monthly) will be established in August to ensure appropriate review and coordination. SWENT staff will perform the reconciliation at year-end to ensure appropriate segregation of duties related to transfers between the SWENT and General Fund.

Findings, Recommendations, and Responses

5. SWENT was double charged for fuel and maintenance on city-owned vehicles.

SWENT paid for the maintenance and fuel of city-owned vehicles that were allocated to SWENT in 2007. Streets also charged SWENT rental rates that included the cost of maintenance and fuel for vehicles used on SWENT projects. This resulted in SWENT being double charged \$262,405.70 for fuel and maintenance on the vehicles.

Auditor's Recommendation:

We recommend that vehicle maintenance and fuel be paid for by the owner of the vehicle. Those charges, along with other costs of ownership, can then be divided proportionally according to each entity's use as recorded in the TRAX database.

We also recommended Streets reimburse SWENT \$262,405.70 for the double charge of fuel and maintenance. Prior to closing the City's financial accounts for 2007, the double charge for fuel and maintenance was reversed.

Streets Division Response:

We agree with this recommendation.

Findings, Recommendations, and Responses

6. Streets initially overcharged SWENT for salaries of personnel who worked on SWENT projects.

In 2007, we found that SWENT was charged \$39,906.12 for the salaries of Streets personnel who performed SWENT work. A recalculation was completed and it was determined that a mistake had been made. SWENT should only have been charged \$5,284.53 for Streets personnel salaries. During the recalculation, it was determined temporary Streets personnel were not removed from the initial calculation, thus overstating the original amount by \$34,621.59.

Auditor's Recommendation:

We recommended that Streets repay SWENT \$34,621.59, which was overcharged to them in 2007 for employee salaries. This amount was not considered material to the 2007 financial statements and therefore, an adjusting entry was made in 2008 to account for the overcharge.

Streets Division Response:

We agree with this recommendation.

Findings, Recommendations, and Responses

7. Streets changed the method of recording equipment time for 2008.

In 2007, Streets only recorded hours of operation in the TRAX system. Therefore, it was appropriate to use FEMA rates to determine the cost of equipment used by SWENT. However, effective January 1, 2008, Streets started recording the time that equipment was available to or assigned to a job, instead of actual time used. For example, a pick-up that was used to transport a crew to a job site may have only been charged for two hours (one going to and one coming from) a job site in 2007. However, in 2008, that same pick-up would be charged to the job for eight hours because it was at the job site for the entire day and was not available for use on other jobs.

While Streets may be able to gain insight and valuable information from tracking equipment using the new method, FEMA rates are designed to be applied for actual hours of operation only. SWENT will be overcharged if FEMA rates are applied to the hours recorded in the TRAX system in 2008.

Auditor's Recommendation:

In 2008, we recommend that the actual expenses for fuel, maintenance, and the cost of ownership of equipment be proportionally distributed between Streets and SWENT based on the percentage of time recorded in TRAX. Fleet Management can provide actual fuel and maintenance charges. The cost of ownership can be estimated based on depreciation expenses assigned to each piece of equipment.

Streets Division Response:

We agree with this recommendation. The Streets Division has already met with the Fleet Group to ensure that vehicle costs can be tracked more accurately in 2008.

Appendix

Appendix A – SWENT Accomplishments

SWENT provided the following list of projects, which were complete at the time of this report.

CAPITAL IMPROVEMENT PROJECTS

- Rustic Hills Drainage Channel – Darley Dr. to Van Diest Rd.
- Sand Creek Channel – S. Academy Blvd. to E. Fountain Blvd.
- New grate installed at Alpine Dr. and Constitution Ave.
- Radial inlet repaired at NW corner of E. Uintah and N. El Paso
- Pond cleaning at Colorado Springs Country Club Detention Pond (Phase I)
- Drop structure stabilization at Monument Creek and Monument Valley Park
- Maintenance of Fountain Creek at Garner St. – cleaned silt from low flow channel
- Templeton Gap Floodway east of N. Nevada Ave. – removed trees and cleaned pilot channel
- Dry Creek Phase II-Dairy Ranch Rd. to Carlson Dr. – tree removal and creek bed cleanout
- Templeton Gap Floodway from Oro Blanco Dr. to Barnes Rd. – corrected concrete ditch failure
- Sand Creek north of Hancock Exp. – removed island in middle of creek
- Sand Creek north of S. Chelton Rd. – removed island in middle of creek
- Sand Creek south of Hancock Exp. – removed island in middle of creek
- Orchard Valley Pond – repaired erosion at inlet
- 19th St. and Dale St. Pond – repaired access ramps at north and south sides
- Zeppelin Rd. and S. Powers Blvd. – cleaned silt and revoked trees in the channel
- 4835 N. Centennial Blvd. – emergency stormwater drainage repair
- W. Fork Sand Creek Pedestrian Bridge – emergency stormwater drainage repair
- Sand Creek at Palmer Park – emergency stormwater drainage repair
- Sand Creek, Main Stem at Oglebay Norton – bank rehabilitation
- Monument Creek – tree removal
- Hercules Dr. and Sirius Dr. – street drainage eroding private property
- Paseo Rd. and Lees Lane – inlet reconfiguration
- Patty Jewett Golf Course – concrete ditch repair
- S. Sierra Madre St. at Antlers Pl. – correction of undersized inlets

2007 MAINTENANCE AND REPAIR PROGRAM: COMPLETED PROJECTS

- Major Maintenance Projects:
 - 3219 Industrial Loop – cleaned and realigned 300 lineal feet of channel.
 - 221 N. Foote Avenue – demo and replaced 50 lineal feet concrete channel with chase section.
 - 76 Sierra Madre Street – replaced 20 lineal feet of pipe and installed a clean out.
 - 133 Madison Street – cleaned and realigned a 100-lineal-foot section of natural channel.
 - 3555 Drennan Road – removed and replaced 80 lineal feet of 54-inch pipe. Replaced spillway.
 - 1 Alsace Way – removed and installed 200 lineal feet of storm sewer pipe.
 - 6010 N. Carefree Circle – repaired and backfilled a sinkhole.

Appendix

- Routine Projects:
 - 3425 Platte Avenue – realigned, blanketed, and seeded 200 lineal feet of natural channel.
 - Fisher Canyon – cleaned and removed trees in 1,000 lineal feet of natural channel.
 - Cheyenne Mountain Boulevard – backfilled, placed top soil, blanketed and seeded 3,800 lineal feet.
 - Transit Drive at Fountain Park – cleaned a grated inlet and 100 lineal feet of natural channel.
 - Platte Avenue and Chelton Road – cleaned and mowed 100 lineal feet of natural channel.
 - 4426 Barkman Circle – built an access to the concrete ditch and cleaned the facility.
 - 1324 Cheyenne Boulevard – cleaned 100 lineal feet of natural channel.
 - Fairlane Pond – cleaned the low flow channel.
 - Chapel Hills Pond #2 – cleaned the pond.

- Concrete Projects:
 - Oro Blanco Drive and Artist Circle – demo and replaced catch basin.
 - 44 E. Pikes Peak Avenue – demo and replaced large catch basin in alley.
 - 218 W. Colorado Avenue – construction 13-foot-deep junction box (four pipes coming together).

- French Drain Projects:
 - 1000 W. Fillmore Street – installed 50 lineal feet of French drain.

- Roadway Failures (Cave-ins):
 - Woodmen Road and Rangewood Drive – completed temporary repairs. Larger project needed.
 - Lexington Drive and Union Boulevard
 - Braddock Drive and Candon Drive
 - Cloverdale Drive and Sutterfield Drive
 - Old Ranch Road and Marble Creek
 - Cotton Drive

- Miscellaneous Maintenance Projects:
 - Alpine Drive and Constitution Avenue – rebuild and replace grates.
 - Tutt Boulevard – replace broken manhole ring and cover.
 - Lexington Ditch
 - Many Moon Drive – repaired outfall.
 - Pebble Way – cleaned outfall.