



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

**09-07 – COLORADO SPRINGS UTILITIES
FRONT RANGE POWER COMPANY
PERFORMANCE AUDIT**

PUBLIC REPORT

March 12, 2009

Jeff Litchfield
City Auditor

Denny Nester, CPA CIA CGFM
Assistant City Auditor





Office of the City Auditor

Public Report

Date: March 12, 2009

To: Honorable Mayor and Members of City Council

Re: 09-07 – Colorado Springs Utilities – Front Range Power Company Performance Audit

We performed an audit of the Front Range Power Company, a Colorado Springs Utilities joint venture.

The purpose of our audit was to evaluate the operating results from Front Range Power Company compared to original performance projections. A review of procedures, practices, and controls related to the operations and maintenance was performed.

We reviewed supporting documentation to determine whether Colorado Springs Utilities and Front Range Power Company L.L.C. were in compliance with the Operations and Maintenance (O&M) Agreement. We identified performance criteria, including financial performance, and determined whether the parties to that O&M agreement performed according to the criteria.

We conclude that overall, the operating results were satisfactory and performance projections were met. We did have one area for improvement, which can be found in the report.

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

Sincerely,

A handwritten signature in purple ink that reads "Jeff Litchfield".

Jeff Litchfield
City Auditor

cc: Jerry Forte, Jr., CEO
Tom Black, Energy Services Division Officer
Drew Rankin, General Manager, Energy Supply Department
Steve Christensen, Project Manager, Energy Supply Department
Bill Cherrier, Interim CFO, Financial Services
Dave Maier, Manager, Enterprise Risk Management
Debbie Griffin, Sr. Analyst, Enterprise Risk Management
Luann Wagar, Sr. Analyst, Enterprise Risk Management

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE CGAP

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Abbreviations and Acronyms Used in this Report

FRPC	Front Range Power Company
O&M	Operations and Maintenance Agreement

Introduction

AUTHORIZATION

We performed an audit of Front Range Power Company, a joint venture in which Colorado Springs Utilities was a 50 percent owner. 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, department, or group managers and by the City Manager, Springs 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, department, 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:

The City Auditor shall make periodic reports to Council which shall include the following:

- 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 entity in this audit was Colorado Springs Utilities, under the direction of their Chief Executive Officer. Colorado Springs Utilities Chief Executive Officer is also a City Council Appointee.

SCOPE AND METHODOLOGY

The purpose of our audit was to evaluate the operating results from Front Range Power Company compared to original performance projections. A review of procedures, practices, and controls related to the operations and maintenance was performed.

We reviewed supporting documentation to determine whether Colorado Springs Utilities and Front Range Power Company L.L.C. were in compliance with the Operations and Maintenance (O&M) Agreement. We identified performance criteria, including financial performance, and determined whether the parties to that O&M agreement performed according to the criteria.

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 related to the areas tested. Sufficient competent evidential matter was gathered to support our conclusions. Our audit period was January 1, 2007 through December 31, 2007.

BACKGROUND

Front Range Power Company (FRPC) is a Colorado Limited Liability Corporation formed in August 1998 to develop, design, construct, finance, operate and maintain a 480-megawatt natural gas-fired, combined cycle generation facility. Colorado Springs Utilities (CSU) holds a 50 percent ownership in Front Range Power Company, L.L.C. The plant began operation in April 2003.

The electricity produced at FRPC was provided to CSU under a 20-year power purchase agreement using natural gas and provides electricity to other merchant customers. FRPC and CSU entered into an Operations and Maintenance agreement under which CSU operated and maintained the electric generating plant and interconnection facilities on behalf of FRPC. FRPC paid CSU management fees and cost reimbursements for services provided by CSU under the O&M Agreement.

OVERALL OPINION

We conclude that overall, the operating results were satisfactory and performance projections were met. We did have one area for improvement, which can be found on the following page.

Area for Improvement

1. Colorado Springs Utilities should develop a Succession Plan for the Project Manager.

The Project Manager of Front Range Power Company (FRPC) was a key position whose responsibilities are vital to the management and processes of the organization. At the time of the audit, a staff member sufficiently trained to perform the routine tasks and assume the responsibilities of the Project Manager did not exist. The FRPC risk was high that a prolonged absence or separation by the current Project Manager might cause a disruption in plant operational oversight.

Auditor's Recommendation:

We recommend Colorado Springs Utilities evaluate the tasks required for adequate continuation of the Project Managers position and determine alternate staff members to act as a backup for this key position.

Utilities' Response:

Colorado Springs Utilities agrees with the Office of the City Auditor's recommendation that Springs Utilities evaluate the tasks required for adequate continuation of the Project Manager's position and determine alternate staff members to act as a backup for this key position. However, because the Project Manager role is fairly common to the Energy Supply operational staff responsible for the procurement and production of retail gas and electric supplies, including fuel procurement, asset management, and asset optimization, we view this as a minimal risk. The underlying skills and knowledge required for the role are very developed in many of the staff, creating an efficient and effective transition for succession planning when the need should occur.

As the current Project Manager is evaluating the feasibility of retirement, Energy Supply plans an advanced placement to ease the transition. Energy Supply is confident a suitable "back up" can and will be implemented when such need presents itself, with minimal to no disruption of business responsibilities.