



## Office of the City Auditor

Date: April 14, 2009  
To: Honorable Mayor and Members of City Council  
Re: 09-09 - Executive Limitation 4 and 7

We have completed the external monitoring as directed by City Council acting in its capacity as the Utilities Board under the Utilities Board Policy Governance. The review covered items 1, 4, 6, 7, and 9 of Policy EL-4 Asset Protection, and all of Policy EL-7 Financial Condition and Activities.

The purpose of the review was to determine whether Utilities and the Utilities' Chief Executive Officer complied with the existing Executive Limitations. Our work included the review of source documentation and control systems, detail tests of calculations, and other auditing procedures we considered necessary to verify the accuracy and reliability of the statements made and the information presented. We also relied on the system audit work performed by our office as well as observations and the work of the external auditors.

The attached document contains the relevant policy prohibitions, the CEO compliance statements from the March 11, 2009 internal monitoring report presented to you at the March 2009 Utility Board Meeting, and our comments. We conclude the CEO is not in violation of the policy prohibitions tested.

Please contact me at your convenience if you have any questions on the report. I will also be at your April 22<sup>nd</sup> Utilities Board meeting when the report will be on the agenda.

Sincerely,

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

Jeff Litchfield  
City Auditor

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE CGAP

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## Review of selected Colorado Springs Utilities Executive Limitations

This document contains excerpts from the March 11, 2009 Executive Limitation Monitoring Reports provided by Colorado Springs Utilities and discussed with the Utility Board on March 18, 2009. These excerpts are followed by the City Auditor comments.

### **Policy: EL 4– Asset Protection**

**Global policy prohibition:** *The chief executive officer shall not allow corporate assets, tangible and intangible, to be unprotected, inadequately maintained or unnecessarily risked.*

*Accordingly, the CEO shall not:*

**Policy prohibition 1:** *Allow unbonded personnel access to material amounts of funds.*

**CEO Compliance Statement:** Springs Utilities maintains a commercial crime insurance policy. Public Official Bonds in the amount of \$500,000 are maintained for coverage of the Chief Planning and Finance Officer, the General Manager of Financial Services, and the Manager of Treasury and Finance.

**Auditor Comments:** We examined evidence that the policies are in place as stated. As noted above, a Public Official Bond was in place for the Chief Planning and Finance Officer, the General Manager of Financial Services, and the Manager of Treasury and Finance.

**Policy prohibition 4:** *Operate without written purchasing regulations assuring legal and fiscal compliance that address such items as competitive acquisition practices, conflict of interest, favoritism, and local vendor policies.*

**CEO Compliance Statement:** Written purchasing regulations that address and comply with the expectations of this policy prohibition are maintained.

**Auditor Comments:** Utilities has written purchasing regulations, which cover all of the areas mentioned in the limitation.

**Policy prohibition 6:** *Receive, process, or disburse funds under controls which are insufficient to meet the City Auditor's standards.*

**CEO Compliance Statement:** All funds are received, processed, and disbursed under controls reviewed and approved by the City Auditor.

**Auditor Comments:** We periodically audit all of the major financial systems of Colorado Springs Utilities. Within the last several years, we have reviewed the receipting and billing, cash disbursements, purchasing, payroll, and investments systems. Based on the work performed in all of the areas described above, it appeared the CEO complied with the Executive Limitation.

**Policy prohibition 7:** *Invest Colorado Springs Utilities funds in violation of Bond Ordinance requirements.*

**CEO Compliance Statement:** All cash and investments are in U.S. Treasury Notes, U.S. Treasury Bills, U.S. Agency securities, repurchase agreements, money market funds, and secured bank accounts that comply with bond ordinance investment security requirements.

**Auditor Comments:** As of December 31, 2008, all securities were held in investments that meet the criteria for compliance with the bond ordinances and Utilities' investment policy.

**Policy prohibition 9:** *Operate without written land acquisition regulations, assuring legal and fiscal compliance, that address fair and consistent appraisal and negotiation practices, and compliance with applicable relocation benefit requirements.*

**CEO Compliance Statement:** Springs Utilities operates within land acquisition regulations as set forth in the *City of Colorado Springs Procedure Manual for the Acquisition and Disposition of Real Property Interests* as approved by City Council Resolution 155-07.

**Auditor Comments:** We verified that Colorado Springs Utilities had adopted *The City of Colorado Springs Procedure Manual for the Acquisition and Disposition of Real Property Interests* as the authoritative policy related to real property transactions.

**Policy: EL 7– Financial Condition and Activities**

**Global policy prohibition:** *With respect to actual ongoing financial condition and activities, the Chief Executive Officer shall not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in Ends policies*

*Accordingly, the CEO shall not:*

**Policy prohibition 1:** *Exceed the total appropriations for the fiscal year, nor fail to inform the Board in monitoring reports of transfers of unexpended appropriations between, or expenditures in excess of budget in:*

- A. *Electric, gas, water, wastewater, and common Federal Energy Regulatory Commission (FERC) capital classifications; or*
- B. *Electric, gas, water, wastewater, and administrative & general FERC O&M classifications*

**CEO Compliance Statement:** Appropriations for the fiscal year have not been exceeded. No transfers of unexpended appropriations between or expenditures in excess of budget occurred during the fourth quarter of 2008.

**Auditor Comments:** We have reviewed detailed budget information and compared it with the year-end financial data provided by Utilities. We concluded the total appropriations for the fiscal year were not exceeded. The Policy Prohibition was not violated.

**Policy prohibition 2:** *Fail to inform the Board in monitoring reports of any canceled major capital projects in the approved budget or any new major capital projects over \$500,000 not funded in the approved budget, along with the appropriate budget transfers.*

**CEO Compliance Statement:** During the fourth quarter 2008, there were two new major capital projects over \$500,000 which were not funded in the approved budget as described below:

- Ft. Carson 8" Steel Main Extension for 2nd Meter Station project. Funds were transferred from the New Construction Billable project to this project in the amount of \$615,000 for the extension of approximately 15,200' of 8" Steel 150P main along Highway 115 for a second Ft. Carson Meter Station at Gate 5.
- El Paso County Woodmen Road Widening project. Funds were transferred from the New Construction Billable project to this project in the amount of \$1,200,000 for the relocation of existing gas in conflict with the widening of Woodmen Road east of Powers Blvd.

**Auditor Comments:** Based on our review of Utilities budget information, we verified the Utilities Board was notified in monitoring reports of canceled major capital projects and all new major capital projects over \$500,000. This Policy Prohibition was not violated.

**Policy prohibition 3:** *Transfer revenues between FERC revenue accounts for electric, gas, water or wastewater services without prior Board approval.*

**CEO Compliance Statement:** There were no transfers of revenues between services for FERC revenue accounts during the fourth quarter 2008.

**Auditor Comments:** We reviewed budget transfer data to verify that no material transfers occurred between FERC revenue accounts. This Policy Prohibition was not violated.

**Policy prohibition 4:** *Financially act in any way that endangers the best possible bond ratings or results in an overall fixed-cost coverage ratio of less than 1.6.*

**CEO Compliance Statement:** The long-term revenue bond ratings have remained stable with the most recent review conducted in August 2008 for the 2008A, 2008B, and 2008C issues:

- Standard & Poor's: AA
- Moody's: Aa2
- Fitch: AA

The Series 2008A bonds are variable rate bonds. The short-term bond ratings have remained stable with the highest short-term ratings obtainable:

- Standard & Poor's: A-1+
- Moody's: VMIG 1
- Fitch: F1+

At the end of the fourth quarter of 2008 fixed-cost coverage ratio was 1.64.

**Auditor Comments:** We verified the 1.64 Fixed Cost Coverage Ratio was supported by the information available at the time that the CEO's Statement was made. The December 31, 2008 Financial Statements and Report of Independent Certified Public Accountants for Colorado Springs Utilities are in agreement with the CEO Compliance Statement above regarding Bond Ratings. The Policy Prohibition was not violated.

**Policy prohibition 5:** *Allow days of working capital to drop below 45 days of operating and maintenance expenses.*

**CEO Compliance Statement:** The numbers of days of working capital were as follows:

- October: 117.0 days
- November: 78.3 days
- December: 59.5 days

**Auditor Comments:** At the end of each month during 2008, the working capital per days of operating and maintenance expenses was always above 45 days as required by this Policy Prohibition.

**Policy prohibition 6:** *Transfer unrestricted cash and investments between services without prior Board approval. Such balances are accounted separately for electric, gas, water, wastewater, and streetlight services.*

**CEO Compliance Statement:** Springs Utilities did not initiate or request any transfers.

Unrestricted Cash and Investment balances at the end of the fourth quarter of 2008 were \$138.1 million, a decrease of \$32.1 million (18.9 percent) for the quarter. This decrease is primarily due to an additional \$74.5 million being posted as collateral with energy and financial counterparties during the quarter, offset by higher than anticipated usage of bond proceeds to reimburse capital.

The Financial Risk Mitigation Fund Unrestricted Cash and Investment balance was depleted in 2008. All funds have been posted as collateral with energy and financial counterparties.

Positive Unrestricted Cash and Investment balances as of December 31, 2008:

- Electric: \$162.6 million
- Streetlights: \$ 1.1 million
- Water: \$ 2.8 million

Negative Unrestricted Cash and Investment balances as of December 31, 2008:

- Wastewater (\$23.8 million)
- Natural Gas (\$ 4.4 million)
- CFF/Healthcare: (\$ 0.2 million)

**Auditor Comments:** Based on our review of the records presented by Utilities, there were no accounting transfers of unrestricted cash and investments between services. The lack of transfers ensures the integrity of the data per service as presented in Segment Reporting. However, you should note the Monitoring Reports indicate three services/funds had negative unrestricted cash and investments balances. At December 31, 2008, Wastewater, Natural Gas, and the CFF/ Healthcare Fund all had negative unrestricted cash and investments balances. Such negative balances could be viewed as de facto loans from the services that have positive balances.

**Policy prohibition 7:** *Fail to settle payroll and debts in a timely manner.*

**CEO Compliance Statement:** Payrolls for the fourth quarter 2008 were processed and balanced accurately, as scheduled on the normal bi-weekly payroll cycle.

**Auditor Comments:** Based on the recurring internal audit work performed in these areas and the external year-end financial audit, it appeared that the CEO complied with the Executive Limitation.

**Policy prohibition 8:** *Allow tax payments or other government ordered payments or filings to be overdue or inaccurately filed.*

**CEO Compliance Statement:** All submissions of state and federal withholding and local, county, and state sales taxes have been made within the required time frame for the fourth

quarter of 2008. All required annual filings have been made in a timely manner. All required annual rebate calculations and deposits have been made in a timely manner.

**Auditor Comments:** Based on the recurring internal audit work performed in these areas and the external year-end financial audit, it appeared that the CEO complied with the Executive Limitation.

**Policy prohibition 9:** *Acquire real property at more than fair market value without justifiable reason.*

**CEO Compliance Statement:** The Chief Executive Officer complied with this prohibition, acquiring real property at fair market value.

**Auditor Comments:** We reviewed the land purchase transactions for 2008 and determined the CEO complied with the Policy Prohibition.

**Policy prohibition 10:** *Fail to resolve receivables after a reasonable grace period.*

**CEO Compliance Statement:** The ratio of monthly net bad-debt write-offs as a percent of revenue for each month of the fourth quarter were:

- Oct: 0.44%
- Nov: 0.65%
- Dec: 0.44%

For year-end 2008 write-offs as a percent of revenue were 0.57 percent, which is higher than previous years. Rising prices, foreclosures, unemployment and a sagging economy are contributing factors to the increase in write-offs. Colorado Springs Utilities is consistently modifying business procedures to manage arrears and minimize write-offs.

**Auditor Comments:** The write-off rate for 2008 was twice as high as the prior year (.57% compared to .28% for 2007), yet within acceptable industry standards. Management appeared to have acceptable processes in place to actively work past due accounts.