



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

**09-17 – COLORADO SPRINGS STORMWATER
ENTERPRISE AND STREETS RECONCILIATION**

PUBLIC REPORT

September 30, 2009

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City Auditor

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Office of the City Auditor

Public Report

Date: September 30, 2009

To: Honorable Mayor and Members of City Council

Re: 09-17 – 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, 2008. 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 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 conclude, with the exception of the conditions reported in findings 1 and 2, the methodology used to determine the amount of transfers between SWENT and Streets was reasonable and the related calculations were accurate.

The Office of the City Auditor will review the 2009 activity to ensure the transfers between the entities are accurate and reasonable. This review will take place during 2009 and in early 2010.

We have also begun a review of the accuracy and reliability of the information included in the database system used to record time and equipment administered by Streets (TRAKS). This review will help confirm the conditions reported in Finding 1 of this report were minor in nature.

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

Sincerely,

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

Jeff Litchfield
City Auditor

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE CGAP

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cc: Penelope Culbreth-Graft, DPA, City Manager
Nancy Johnson, Assistant City Manager
Ken Sampley, Stormwater Enterprise Manager
Saleem Khattak, Streets Division Manager
Bard Lower, Streets Operations Manager
Kenneth Winckler, Streets Operations Manager

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Acronyms and Abbreviations Used in This Report

SWENT	Stormwater Enterprise
Streets	Streets Division
TRAKS	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, 2008. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the City Code, and more specifically parts 703, 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.

1.2.706: 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;

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.

Introduction

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 2008. 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 (TRAKS) administered by Streets. The TRAKS 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.

COMMENDABLE PRACTICES

The original estimate of charges resulted in a transfer of \$747,738.55 from SWENT to Streets. However, as a result of a reconciliation performed by SWENT, it was determined the correct amount of the transfer was \$594,472.05, or a difference of \$153,266.50. In March 2009, a journal entry correcting the amount was posted to the entities financial records. While the estimate for SWENT costs being 25% greater than the actual (594,472.05/153,266.50) is a concern, and is addressed in Finding 1 of this report, we find the reconciliation process that caught this difference to be a commendable practice and encourage its continued use.

Introduction

PREVIOUS REPORT

On August 13, 2008, we issued report 08-09 – Colorado Springs Stormwater Enterprise and Streets Reconciliation. Report 08-09 is available on the City Auditor’s website at www.cityauditor.org. Report 08-09 covered the period January 1 to December 31, 2007. During the current audit, we reviewed the implementation status of Managements Actions (Responses) to the findings in report 08-09. We found Management had taken sufficient action on five of the seven findings mentioned in the previous report to consider them cleared. The remaining findings are being repeated as Findings 1 and 2 in the current report.

Our previous report also identified \$34,621.59 due SWENT, and we verified that amount was transferred to SWENT in 2009.

OVERALL OPINION

We conclude, with the exception of the conditions reported in Findings 1 and 2, the methodology used to determine the amount of transfers between SWENT and Streets was reasonable and the related calculations were accurate.

FOR THE FUTURE

The Office of the City Auditor will review the 2009 activity to ensure the transfers between the entities are accurate and reasonable. This review will take place during 2009 and in early 2010.

We have also begun a review of the accuracy and reliability of the information included in the database system used to record time and equipment administered by Streets (TRAKS). This review will help confirm the conditions reported in Finding 1 of this report were minor in nature.

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 usage still needed to be improved.

Streets used a computer database (TRAKS) 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 TRAKS database. We tested three months of time cards for seven employees. We found most entries into the database were accurate, appeared to be reflective of the activities that occurred, and were adequately supported. However, we found some equipment numbers were listed on time cards, but no hours were allocated to that equipment in TRAKS. We also found equipment that was undercharged in TRAKS compared to the time cards. While most of these errors were relatively insignificant, the possibility exists that a significant error could occur and go undetected.

Another problem we saw while reviewing the time cards was time would be charged to one project code on the time card and another project code in TRAKS. It was also determined that the Operations Manager had changed \$56,462.42 worth of project codes in 2008 due to employees coding to incorrect codes. While we understand the need to change project codes due to incorrect coding, there was no documentation to support these changes.

Additionally, the end of year reconciliation performed by SWENT found Streets had over estimated SWENT costs by 25%, or \$153,266.50.

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 create a policy outlining the type of data they would like included in TRAKS and how they would like this data to be recorded. We also recommend that Streets ensure SWENT and Streets employees follow the policy.

Streets Division Response:

We agree with the recommendation.

The previous process for tracking employee time and equipment use for the TRAKS system required each employee to complete a time card and respective project or activity code. The time card was then submitted to office staff, who entered the respective data. Each time card had additional entries (some 4-6 entries per day) for each change of activity or project, to include time and equipment numbers.

Given the number of employees, activities or job codes used daily, and the large number of equipment numbers used daily, the process becomes extremely difficult to perform accurately, difficult to check, and difficult to transfer.

Findings, Recommendations, and Responses

Several measures have recently been taken to help address the situation:

- The Street Division has completed a review of all Activity Codes in TRAKS. As a result, the number of activity codes have been reduced from 651 to 120. This reduction in the number of codes, should improve the overall accuracy of data input both by employees and the transcription by the timekeeper.
- A new “daily work report” has been designed and will be implemented in October of 2009. Training on the use of this new work report system was provided to all employees on September 17, 2009.
- A complete audit of the TRAKS system through the City Auditor’s office is scheduled to begin later this year to further improve this process.
- The Street Division will create a policy outlining the requirements for employees, timekeepers and supervisors when filling out, reviewing, and inputting data into the TRAKS system.
- The SWENT Manager has agreed to support funding for an Administrative Position to address the “control” issue. That position will be filled as soon as it is approved.
- Reconciliation with Streets vs. SWENT will be done multiple times per year to keep the estimated costs more accurate.

Findings, Recommendations, and Responses

2. Streets overcharged SWENT \$70,939.99 for equipment usage in 2008.

In public report 08-09 - Colorado Springs Stormwater Enterprise and Streets Reconciliation, The City Auditor's Office recommended Streets use actual expenses for the equipment and proportionally distribute the cost between the two entities based on the percentage of usage by each in 2008. Streets agreed with this recommendation.

We found that Streets had again used 2005 FEMA rates to charge SWENT for equipment usage. In 2008, Streets began charging equipment based on availability as opposed to when the equipment was actually in operation. FEMA rates are designed to be used when the equipment is operational, not based on availability.

In 2008, Streets charged SWENT \$523,119.00 for equipment usage. We determined that SWENT was overcharged \$70,939.99 because FEMA rates were used instead of actual expenses.

Auditor's Recommendation:

We recommend Streets refund SWENT \$70,939.99 for overpayment of equipment usage in 2008.

Streets Division Response:

We agree with the recommendation.

Because the Fleet Division does not charge rental rates to their users, no actual rental rate for the City existed. As a result, the Street Division developed rental rates based on FEMA equipment rates, which appeared to be the closest to our estimated costs. These rates were used until a more accurate rental rate, based on actual City costs for equipment ownership and use, as provided by the Fleet Division, was developed and then approved by the City Auditor's Office. Rental rates have been developed and will be used for all future charges.

The Street Division will reimburse SWENT in the amount of \$70,939.99 for overpayment through billing adjustment for work performed in 2009.

Findings, Recommendations, and Responses

3. A Streets employee and a SWENT Employee split a purchase between their City issued Purchasing Cards.

During our review of SWENT expense accounts managed by Streets, we found an instance where two employees split a purchase between their City issued purchasing (credit) cards to circumvent the spending limit per transaction. The spending limit per transaction was \$1,000.00 and the purchase totaled \$1,961.20. The employees both paid \$980.60 on their credit cards because the material was needed immediately for a project.

Auditor's Recommendation:

We recommend Streets review the transaction and determine whether the single-purchase limit for the purchasing card holders should be increased or identify an alternate method of completing similar transactions.

Streets Division Response:

We agree with the recommendation.

The Street Division has raised the limit on all purchasing cards, and employees have been instructed to comply with the policy to prevent any future occurrences.