



Office of the City Auditor 2017 Audit Plan

July 12, 2016

Audit Committee for
Colorado Springs City Council
Colorado Springs, CO 80901

Subject: 2017 Audit Plan

Dear Audit Committee:

Attached is the 2017 Audit Plan for the Office of the City Auditor. The basis for this audit plan is a risk assessment performed by me and my office as required by professional auditing standards. As part of this risk assessment process, we considered input from City Council, City Administration, Colorado Springs Utilities Administration, Colorado Springs Airport Administration, and others. This document will serve as the primary work plan for my office. We plan to complete all of the audits listed with the staff of my office.

Some audits are required by City Code or fulfill a responsibility specified in City Charter. Similarly, Colorado Springs Utilities governance model requires some external reporting that has been delegated to my office. The elective audits are ordered by their risk assessment score from highest to lowest. While the risk assessment model provided ratings on other potential audits, only the elective audits with the highest risk scores are included in this 2017 Audit Plan.

Once the 2017 Audit Plan has been reviewed and approved by City Council, a copy will be posted on the Office of the City Auditor webpage.

Respectfully,

Denny L. Nester, MBA, CPA, CIA, CFE, CGFM, CGAP
City Auditor



Office of the City Auditor 2017 Audit Plan

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BACKGROUND

- **AUTHORITY**

The City Auditor is an appointee of City Council. The City Auditor has the authority to establish policies and procedures to facilitate the consistent operation of the Office of the City Auditor. In most instances, the Office of the City Auditor will also comply with the policies and procedures the City Mayor's Office has prescribed for the City. The City's policies and procedures can be found on the City's internet web site, under the Human Resources tab. The following policies and procedures have been established and are intended to promote the smooth operation of the Office of the City Auditor.

The City Auditor derives his authority from the Colorado Springs City Code. The primary authority given is in Section 1.2.706, which 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, division, agency, 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." (Ord. 11-18)

- **MISSION STATEMENT**

To provide the City Council an independent, objective, and comprehensive auditing program for operations of the City of Colorado Springs and Colorado Springs Utilities; evaluate the adequacy of financial controls, records, and operations, and the effectiveness and efficiency of organizational operations; and provide City Council, management, and employees objective analyses, appraisals, and recommendations for improving systems and activities.

The Office of the City Auditor performs a variety of audits. While each audit involves unique planning, techniques, and execution, we can divide most of the audits into the following types.



- TYPES OF AUDITS

SYSTEM AUDITS

The purpose of these system audits is to evaluate the internal controls that are used to ensure the reliability of financial information. The major systems that will be audited on this rotating basis are cash receipts, billing, cash disbursements, payroll, debt, investments, procurement and purchasing cards.

City Code 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."

Considering the magnitude of this requirement, the City Auditor has established a practice of methodically auditing all major systems every three years.

FINANCIAL AUDITS

Our office provides audit assistance to the external auditor for the City of Colorado Springs, Colorado Springs Airport, and Colorado Springs Utilities annual financial audit. This work is defined, supervised and reviewed by the external audit firm. The OCA provides assistance per the external audit contracts, approximately 250 hours each, to assist in reducing the audit fee.

The City Charter states: "3-160.Independent Audit. The Council shall provide for an independent annual audit of all City accounts and may provide for more frequent audits as it deems necessary. Such audits shall be made by a certified public accountant or firm of such accountants who have no direct personal interest in the fiscal affairs of the City government or any of its officers." Acting as City Council's agent, the City Auditor provides oversight of the contract with the independent external audit firm along with providing staff assistance to the firm.

PERFORMANCE AUDITS

In 2005, the City Auditor began focusing on performance audits, which are objective and systematic examinations of a specific area of an organization to provide an assessment of the performance and management of the operation. It usually involves a review of the

- compliance with internal and external rules and regulations,
- accomplishments of goals and objectives,
- reliability of data,
- economy, efficiency, and effectiveness of service delivery, and
- safeguarding of assets.

City Code states the duties of the City Auditor include, "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....”

CONTRACT AUDITS

The primary concern or purpose of a contract compliance audit is that the parties of the contract are abiding by the terms of the contract. One example of a contract audit is the audit of coal purchases. Coal purchase contracts involve millions of dollars and some specify complex adjustments. When we audit these contracts, we verify receipt, proper billing, recalculate adjustments, and verify all adjustments for the year.

Other contracts such as those entered into with Transit or the Humane Society are audited as well. These contracts often address issues of performance and compliance with City requirements. Again, the criteria that we are auditing are the specifications of the contract.

City Codes states that the duties of the City Auditor include, “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...”

RATE REVIEWS

The Office of the City Auditor is required to review and comment on all utility rates or charges. The City Auditor reviews the rates to determine whether the rate model has been accurately and consistently applied in the calculation of appropriate rates. City Council votes on whether or not to implement the rate or rate adjustment.

City Code requires that rate filings be submitted to the City Auditor. City Code states, “12.1.107: REGULATION OF ELECTRIC, STREETLIGHT, NATURAL GAS, WATER AND WASTEWATER RATES, CHARGES, AND REGULATIONS: C. Adopted By Resolution; Hearing: Base rates or regulations or any change shall be adopted by resolution, which shall adopt by reference the appropriate tariff sheet or sheets to be established or revised. 1. Preliminary Information For The City Auditor And City Attorney: When Utilities proposes to change base rates, and the proposed change will result in the determination of a new revenue requirement supported by a cost of service study, Utilities will provide a draft of the proposal and cost of service study to the City Auditor and the City Attorney at least thirty (30) days prior to filing the proposed resolution with City Council. When changes to base rates are proposed, but do not involve a cost of service study, a draft of the proposal will be provided to the City Auditor and the City Attorney seven (7) days prior to the filing of a proposed resolution. Any request for additional information by the City Auditor and any response by Utilities, will be in writing.”

CONSTRUCTION AUDITS

The City and its various enterprise operations are involved in active capital expansion programs where several billion dollars will be spent. The City Auditor has established a Construction Audit review section under the Performance Audit group. This group provides a review of the large projects that are



underway. We have identified a list of risks associated with construction projects. Some of the tasks that will be performed include

- reviewing payment requests to assure they are in agreement with contracted terms,
- scrutinizing change orders,
- monitoring project costs versus approved budgets, and
- providing independent observations to management regarding project status.

The Code authority for construction audits would be the same as several of the areas mentioned above to include Contract Audits, Performance Audits, and System Audits. In addition, City Code states, "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."

INFORMATION SYSTEM AUDITS

The purpose of an Information System/IS (or Information Technology/IT) audit is to review and evaluate the availability, confidentiality, and integrity of the City's (and its entities') information technology infrastructure. The evaluation helps to ensure that the organization is adequately safeguarding assets, maintains data integrity, and is operating effectively and efficiently to achieve the organization's goals. Types of IS/IT audits include

- review of computerized systems and applications to verify that they are appropriate to the entity's needs, are efficient, and are adequately controlled to ensure valid, reliable, timely and secure input, processing, and output at all levels of the system's activity;
- review of information processing facilities to verify that the facility is controlled to ensure timely, accurate, and efficient processing of applications under normal and potentially disruptive conditions;
- review of systems development to verify that the system under development meets the objectives of the organization, includes adequate controls to safeguard information input, processing and output, and ensures the system is developed in accordance with generally accepted standards for systems development;
- review of management and enterprise architecture to verify that IT management has developed an organizational structure and procedures to ensure a controlled and efficient environment for information processing.

City Code 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." The



information systems audits are primarily concerned with computer records and ensuring the reliability of data.

MONITORING PROGRAMS

The Office of the City Auditor monitors various aspects of the City and the entities associated with City Council/Utility Board. We accomplish this function by attending meetings and auditing specified projects. We also utilize technology to assist in the monitoring process.

City Code states, "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." Monitoring activities allow the City Auditor to help ensure public accountability.

FOLLOW-UP AUDITS

Audit report recommendations and management responses are maintained for purpose of monitoring the management actions to audit results. These follow-up audits are required by professional standards and also are supported by previously quoted sections of City Code that direct the City Auditor to ensure public accountability.



- AUDIT UNIVERSE

The audit universe for the City Auditor is very broad. Per the City Code, 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.

STANDARD AUDITS

There are certain audits that are required by City Code, a city ordinance, an executive limitation, or some other legal requirement. These audits are automatically added to the audit plan at the appropriate time.

RISK ASSESSMENT MODEL

The City Auditor uses a risk assessment model to identify projects for its annual audit plan. The model provides numeric scoring for risk areas and a cumulative score for the project as a whole. The higher values, representing higher risk projects are then reviewed and a balance is reached between staff resources and work load of the various entities.

The City Auditor also considers the strategic goals and objectives and risk concerns of audited entities for audit planning. City Council, Utility Board and executive management recommendations are considered in the risk assessment of potential projects for annual audit planning.

BALANCING AUDIT TIME BETWEEN ORGANIZATIONS

The City Auditor attempts to balance the time staff spends on auditing the various organizations based on a historical average. The targeted audit time for each of the major entities is as follows:

30%	City of Colorado Springs
65%	Colorado Springs Utilities
5%	Colorado Springs Airport

ANNUAL AUDIT PLAN

The Audit Plan is shared with the entities that are impacted. Once the Audit Plan has been developed and approved by the Audit Committee, the Audit Committee forwards the Audit Plan with their recommendation to City Council for final approval. When approved, the Audit Plan is posted on the City Auditor website.

AUDIT ASSIGNMENT

The City Auditor assigns audits to the functional groups within the office. Competency, knowledge and skill are considered in all staff assignments. The City Auditor declines engagements or obtains assistance



if the internal auditors lack knowledge, skill, or other competencies to perform all or part of the assignment.

AUDIT FLEXIBILITY

The City Auditor sets aside approximately 10% of the scheduled staff time annually for projects that may arise during the year and require immediate attention. An example of such a project would be the investigation of reports alleging fraud, waste, or abuse via the Fraud Hotline. Similarly, City Council or management may request an audit or consulting engagement that needs immediate attention.

All the projects listed may not be completed in 2017. Any audits/projects not completed in 2017 will be assessed for inclusion in the 2018 Audit Plan. The Audit Plan may be revised during the year based on various factors such as resource changes or a modified risk assessment.

THE FOLLOWING PAGES INCLUDE A LIST OF AUDITS/PROJECTS THAT HAVE BEEN ASSESSED TO BE THE BEST USE OF THE RESOURCES OF THE OFFICE OF THE CITY AUDITOR IN 2017. THE AUDITS/PROJECTS ARE LISTED IN THREE CATEGORIES:

- STANDARD AUDITS PLANNED FOR 2017
- AUDITS / PROJECTS PLANNED FOR 2017 PRIORITIZED BY CITY AUDITOR RISK ASSESSMENT RANKING



2017 AUDIT PLAN

- STANDARD AUDIT PLANS FOR 2017

- ❖ **City and Colorado Springs Utilities External Auditor Oversight**

In accordance with City Charter, 3-160 Independent Audit: The City Auditor administers the external auditor contracts. The City Auditor monitors issues as they arise between the external auditor and the City, Colorado Springs Utilities, or its audited entities. The external auditor will report to the City Auditor, who will then communicate with City Council, as needed.

- ❖ **External Financial Audit Staffing/Assistance**

The Office of the City Auditor will provide 250 hours of audit assistance each to the external auditor for the City and Colorado Springs Utilities annual external audit of the financial statements. City Auditor staff performs this work under the direction of the external auditor.

- ❖ **Executive Limitation 4 & 7 Monitoring**

- ❖ **Executive Limitation 11 Monitoring**

In accordance with City Code, 1.2.206 Cooperation Among Appointive Officers of the City: The Utilities Board requested the City Auditor perform an annual compliance review of Colorado Springs Utilities Executive Limitations 4, 7 & 11. The purpose of this audit is to verify the report of Colorado Springs Utilities management to City Council on EL-4, Prohibitions 1,4,7 & 8 related to Asset Protection and EL-7 related to Fiscal Condition and Activities. The purpose of the EL-11 audit is to verify the report of Colorado Springs Utilities management to Utility Board on EL-11 related to Energy Risk Management.

- ❖ **Colorado Springs Utilities; Financial System Reviews**

- ❖ **City of Colorado Springs; Financial System Reviews**

The purpose of financial system audits is to evaluate the internal controls that are used to ensure the reliability of financial information and assets. We also consider operational best practices, efficiency, and effectiveness in these audits. The operations included as financial systems are cash receipts, billing, cash disbursements, payroll, debt, investments, procurement and purchasing cards.

The Office of City Auditor will perform a risk assessment of financial systems at City and Colorado Springs Utilities in early 2017 to determine which systems will be audited for the year. We will consider and coordinate the internal control work done by the external auditors in our risk assessment. All financial systems will be audited at least once every five years. Higher risk systems will be audited more frequently than five years. For example, system or staffing changes as well as complexity of operations or decentralized activities would indicate higher risk profiles for audit services.

In accordance with City Code, 1.2.704 Perform Postaudit and 1.2.706 Examine Books, Records: "The City Auditor shall perform a current postaudit of the financial operation of the City government and its enterprises. The City Auditor shall submit reports to Council of periodic audits of each enterprise, department, division, office, agency or account." "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, division, agency, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council.”

❖ **Follow-ups**

In accordance with the Institute of Internal Audit Practice Advisory 2500.A1-1: “The chief audit executive must establish a follow up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.” The purpose of this project is to follow up on City, Colorado Springs Utilities and Airport audits issued in 2016 or unresolved issues from prior years.

❖ **Colorado Springs Utilities Rate Filing Reviews**

❖ **Colorado Spring Utilities ECA/GCA Rate Verification**

In accordance with City Code, 12.1.107 Regulations of Electric, Streetlight, Natural Gas, Water and Wastewater Rates, Charges and Regulations: “When Utilities proposes to change base rates, and the proposed change will result in the determination of a new revenue requirement supported by a cost of service study, Utilities will provide a draft of the proposal and cost of service study to the City Auditor and the City Attorney at least thirty (30) days prior to filing the proposed resolution with City Council. When changes to base rates are proposed, but do not involve a cost of service study, a draft of the proposal will be provided to the City Auditor and the City Attorney seven (7) days prior to the filing of a proposed resolution. Any request for additional information by the City Auditor and any response by Utilities, will be in writing.”

Colorado Springs Utilities periodically files rate adjustments and Electric or Gas Cost Adjustments (ECA/GCA) with the City Council. These rates become the basis for the service billings. The purpose of this audit is to evaluate whether Colorado Springs Utilities prepares rate filings in a consistent and accurate manner. We verify management is using sound methodology that is supported by verifiable data and logical assumptions. We also verify that the rates support management objectives.



- AUDITS / PROJECTS PLANNED FOR 2017 LISTED BY ENTITY AND PRIORITIZED BASED ON THE CITY AUDITOR RISK ASSESSMENT RANKING

City of Colorado Springs

❖ Information Technology Governance/Outsourcing Monitoring

The purpose of this audit will be to monitor changes as they occur in the Information Technology Department. Significant operational and strategic changes are planned. We will monitor the changes using the Certified Information Systems Auditors employed by the office. If outsourcing occurs during 2017, we will monitor such activities. We will issue an annual report concerning our involvement.

❖ Stormwater Costs

The purpose of this audit will be to assess and validate the cost of activities associated with stormwater management. We will also gather and analyze information concerning the spending in Colorado Springs related to stormwater management. We plan to validate the funds spent to comply with the IGA between Colorado Springs and Pueblo County.

❖ Capital Improvement Projects

The purpose of this audit will be to assess the effectiveness, efficiency, and economy of specific capital improvement projects. This audit will build upon the Capital Improvements Program Audit Report, which was issued in April 2015, by examining specific projects. We plan to assess the effectiveness of recent changes made to the project management processes in the City.

❖ Monitor 2C Spending and Related Issues

The purpose of this audit will be to ensure the City complies with the specifications related to Ballot Issue 2C. We will verify that General Fund spending maintained the pre-2C level as specified. We will also monitor projects and spending to help promote effective and efficient utilization of funds that resulted from 2C being passed by the citizens of Colorado Springs.

❖ Changes with Westcott Fire District

The purpose of this audit will be to verify appropriate changes that should occur due to the City opening Fire Station 22. Property tax billing for the area within the City that was previously served by Westcott Fire District should change as a result of the new fire station.

❖ Financial Assurance Administration within the Planning Department

The purpose of this audit will be to verify that financial assurances administered within the Planning Department are being administered in compliance with the established policies and procedures. We try to identify areas for improved efficiency.

❖ System Development

The purpose of this audit will be to evaluate the adequacy, effectiveness, and efficiency of the System Development process within the Information Technology Department.



❖ **City Fleet Management and Replacement Audit**

The purpose of this audit is to verify the savings that have resulted from Fleet Maintenance being outsourced. We plan to verify the aggregate cost of Fleet Maintenance outsourcing compared to the original estimated cost of outsourcing. We also plan to examine data related to optimizing the size and cost of fleet to include replacement options.

Colorado Springs Airport

❖ **Concessionaire Audits**

The purpose of this audit is to ensure compliance with contracts terms and related fees due from Concessionaires at the Colorado Springs Airport. This audit will review contracts with the vendor and all fees collected to ensure they have appropriately remitted to the airport.

❖ **Disaster Recovery/Business Continuity**

The purpose of this audit will be to evaluate the adequacy of the critical data and system backup/recovery processes in place as well as provide recommendations for implementing improved backup/recovery processes based on industry standards.

Colorado Springs Utilities

❖ **Review and Monitor the Drake Scrubber Project**

The purpose of this audit will be to monitor the Drake Scrubber Project, a major emissions control construction project. This audit will include monitoring controls for procurement, construction, costs and management reporting.

❖ **Review and Monitor the Nixon Scrubber Project**

The purpose of this audit will be to monitor the Nixon Scrubber Project, a major emissions control construction project. This audit will include monitoring controls for procurement, construction, costs and management reporting.

❖ **Stormwater Costs**

The purpose of this audit will be to assess and validate the cost of activities associated with stormwater management. We will also gather and analyze information concerning the spending in Colorado Springs related to stormwater management. We will examine whether there are projects that may have been budgeted as wastewater projects, but also address stormwater issues.

❖ **Capital Improvement Projects**

The purpose of this audit will be to assess the effectiveness, efficiency, and economy of specific capital improvement projects. This audit will follow up on prior Capital Improvements Program Audit Reports, such as the one issued in May 2015. We plan to assess the effectiveness of changes made to the project management processes at Utilities.



❖ **Financial Impacts of the Average & Excess 3CP Model**

The purpose of this audit will be to assess the impact of the change to the Average & Excess 3CP Model, which is incorporated into the rate making process at Colorado Springs Utilities. The audit will include a review of the model and how the change has impacted various customer rates.

❖ **Colorado Springs Utilities Fleet Management and Fleet Optimization**

The purpose of this audit is to verify the savings that have resulted from Fleet Maintenance being outsourced. We plan to verify the aggregate cost of Fleet Maintenance outsourcing compared to the original estimated cost of outsourcing. We also plan to examine data related to optimizing the size and cost of fleet to include replacement options.

❖ **Drake 5 Shutdown**

The purpose of this audit will be to assess the progress made by Colorado Springs Utilities as it decommissions Drake 5. At the time of this audit, we will evaluate the plan for decommissioning along with the status of various aspects of the plan.

❖ **2C Impacts on Subsurface Infrastructure**

The purpose of this audit is to quantify the impact to Colorado Springs Utilities of work related to road improvements performed as a result of Ballot Issue 2C. These impacts may include increased water main breaks, the cost of various methods of addressing values in roadways, etc.

❖ **ECA/GCA Account and Transaction Audit**

The purpose of this audit is to evaluate the accuracy and appropriateness of the accounts that are included as fuel cost when calculating the Electric and Gas Cost Adjustments by Colorado Springs Utilities.

❖ **Is the Warehouse Surcharge working as intended?**

The purpose of this audit will be to assess the Warehouse Surcharge utilized by Colorado Springs Utilities. We will examine how the 19% fee is calculated and the impacts on buyers. We will try to determine whether employees are purchasing goods from suppliers, instead of using stock on hand. Does Colorado Springs Utilities want employees using stock on hand or buying from suppliers?

❖ **Real Estate Record Retention**

The purpose of this audit will be to evaluate how real estate records for Colorado Springs Utilities are being handled and retained by the City's Real Estate Office. We will examine the internal controls related to record availability and completeness.

❖ **Non Potable Water**

The purpose of this audit will be to gather information from similar utilities concerning the charges and cost associated with supplying non potable water to select customers. We will benchmark Colorado Springs Utilities with similar non potable water utilities.



❖ **Stack Vision System Controls**

The purpose of this audit will be to evaluate the adequacy, effectiveness, and efficiency of the Stack Vision system application controls.

❖ **Business Continuity and Disaster Recovery**

The purpose of this audit will be to evaluate the adequacy, efficiency, and effectiveness of the controls to recover the critical technology resources of the enterprise in the event of a disaster as well as ensure limited disruption of services provided to the public.

❖ **Regulatory Compliance**

The purpose of this audit will be to identify the information technology regulations that Colorado Springs Utilities needs to comply with and verify that they are in compliance.

❖ **Cyber Security**

The purpose of this audit will be to evaluate the adequacy, efficiency, and effectiveness of critical cyber security processes.

❖ **Information Technology Capacity Planning**

The purpose of this audit will be evaluate the adequacy, effectiveness, and efficiency of the controls in place ensuring that information systems are built/purchased in an appropriate capacity for the needs of the business.

❖ **Network/Network Devices**

The purpose of this audit will be evaluate the adequacy, efficiency, and effectiveness of the information technology general controls applied to the data communications network components supporting the critical functions of Colorado Springs Utilities.