



OFFICE OF THE CITY AUDITOR

COLORADO SPRINGS, COLORADO

13-07 Annual External Report on Executive Limitation (EL) 4 Asset Protection and EL-7 Financial Conditions and Activities

April 2013

Purpose

The purpose of this review was to determine whether Colorado Springs Utilities and the Utilities Chief Executive Officer complied with the existing Executive Limitations (EL) 4, Asset Protection Policy Prohibitions 1,4,6,7 & 9, and all of EL-7, the Financial Condition and Activities Policy Prohibitions for the year end 2012. In addition to verifying management's report, the Office of the City Auditor would also report on any known violations if such violations were not reported by management.

Highlights

We conclude the Chief Executive Officer was in compliance with policy prohibitions EL-4 and EL-7.

Our audit included the review of source documentation, detail tests of calculations, and other auditing procedures as we deemed necessary. We verified the accuracy and reliability of the statements made along with information presented in the EL-4 and EL-7 reports prepared by Colorado Springs Utilities for the Utility Board. We also relied on the system audit work performed by our office as well as observations and the work of the external auditors. Our review did not include detailed tests of controls and systems that ensure policy compliance.

Last year, we made three recommendations related to the EL-7 report. These recommendations have been addressed. The days cash on hand has improved to exceed the specified minimum balance. In December 2012, the Utilities Board reevaluated the Policy Prohibitions included in EL-7, which addressed the other two issues. One of the recommendations dealt with the Board specifying the level of detailed information they may want from Colorado Springs Utilities in the EL-7 report. That issue was addressed in the

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Management Response

Colorado Springs Utilities agrees with the Auditor's Recommendation. See detailed comments in the report.

Recommendations

1. Colorado Springs Utilities should ensure that the Utilities Board is provided with consistent and timely financial information.

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December 2012 Board meeting. At that meeting, the Board chose to remove Policy Prohibition 6, which addressed the balances by service for unrestricted cash and investments. While the Gas service balance in unrestricted cash and investments remained negative in 2012, our concern related to the balance possibly being misunderstood will be addressed when the information is no longer reported in the EL-7 report.

Observation 1: Financial Data was not Timely and Consistent with Audited Data Previously Reported

The 2012 financial results provided with EL-7 as Supplemental Information for the March 20, 2013, meeting included preliminary 2012 income figures. The audited financial statements had previously been finalized on February 28 and provided to Board/Council Members on March 5, 2013. While finalizing the consolidated financial statements, earnings were adjusted from \$51.7 million to \$119.7 million. This change was primarily due to an adjustment concerning the non-cash effect of recording a loss on novating two swaps. EL-7 financial data was not updated to agree with the audited financial statements. While Colorado Springs Utilities required the reports to be submitted prior to March 5 to ensure the reports were properly reviewed and approved, the financial data was not updated to provide the audited information to the Board. Additionally, "Segment Reporting by Service" was not presented with the EL-7 report. Prior to 2010, this information was always provided with EL-7 financial data in the March report. Updated financial information was provided to the Board on April 5, 2013, to include "Segment Reporting by Service."

Recommendation: Colorado Springs Utilities should ensure that the Utilities Board is provided consistent and timely financial data.

Management's Response: We agree with the Auditor's Recommendation. We plan to provide audited and timely financial statements. We acknowledge that the EL-7 report to the Utilities Board at the March 20th board meeting did include preliminary financial data, which we identified as such in the report. We will strive for timely disclosure of audited financial data in the March EL-7 report and may adjust review schedules to meet that objective. We do note that there could be circumstances which extend the date of the audited financial statements and thus the preparation and review of the financial and supplemental data contained in the monitoring report. In this case, we may need to include preliminary data and then timely follow up with audited financial statements.

The audit was conducted in a manner that meets or exceeds the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors, with the exception of the requirements under standards 1312 and 1321 to obtain an external quality assurance review once every five years. We do not believe this non-compliance impacted the quality of our audit.