



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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## 14-29 Drake Scrubber Audit

November 2014

**Purpose** The purpose of this audit was to monitor the construction of the Neumann Systems Group (NSG) NeuStream™ SO<sub>2</sub> scrubber project as construction continued at the Martin Drake Power Plant. The period covered by our work was January through August 2014.

### Conclusion

We conclude that project management had strengthened since our last audit due to changes in management and processes. The role of the owner's engineer had been expanded to include managing the activities of all construction contractors on site, which we believe will result in improvements in project controls.

We evaluated project compliance with policies and procedures related to contractor oversight, procurement, and financial controls. Colorado Springs Utilities engaged the accounting firm of Baker Tilly Virchow Krause, LLP to perform project accounting and contract analysis services related to the Development, Design, Engineering, and Procurement Contract with Neumann Systems Group, Inc. To avoid duplication, we excluded a detailed review of this contract from our audit.

The project appeared to be on schedule to achieve timely compliance with the Regional Haze Rule. As of September 2013, the cost forecast to complete was \$130.8 million. Updated cost figures have not yet been finalized pending award of the remaining construction contracts and ongoing negotiations with key contractors. The updated figures are anticipated by year-end 2014 and will be communicated to the Utilities Board when available.

We issued a prior report on this project in April 2014 covering 2013. We followed up on our two recommendations from that report:

- 1) The recommendation to update the NSG contract via change order or amendment was in process.
- 2) The recommendation to create a Project Management Plan (PMP), including budget, schedule, staffing plan and clearly delineated responsibilities, was implemented.

For this report we made four new recommendations to management and identified one opportunity for improvement. Recommendations 2 through 4 related to activities that occurred before the PMP was in place.

### Recommendations

1. Ensure appropriate access to information is granted to contractors.
2. Ensure warranty periods are established and monitored.
3. Strengthen controls surrounding close-out of construction contracts before final payment.
4. Implement controls surrounding accurate contract values in Maximo.

### Opportunity

1. Identify contractor submittals required by contracts.

### Management's Response

We agree with the recommendations. Additional management oversight and implementation of a new Project Management Plan improves execution of this important project.

This audit was conducted in conformance 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.

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