



City of Colorado Springs



Colorado Springs Utilities
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City Council's Office of the City Auditor

PUBLIC REPORT

Date: October 24, 2007
To: Honorable Mayor and Members of City Council
Re: 06-227 – Colorado Springs Utilities - Cash Disbursements Continuous Monitoring

AUTHORIZATION AND BACKGROUND

City Code 1.2.704 states: "The City Auditor shall perform a current post-audit of the financial operation of the City government and its enterprises, and shall devote full time and effort to post-audit examinations and reporting. The City Auditor shall submit reports to Council of periodic audits of each enterprise, department, group, unit, division or account. The Auditor shall have access to the books and accounts of all City enterprises, groups, departments, administrative officials or employees charged with the receipt, custody or safekeeping of public funds."

City Code 1.2.706 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 five years. The purpose of these system audits is to evaluate the internal controls that are used to ensure the reliability of financial information. The five major systems audited on this rotating basis are:

- Accounts Receivable/Billing,
- Accounts Payable,
- Payroll,
- Investments, and
- Purchasing/Purchasing Cards

The City Auditor has a program to verify the reliability of the City's databases on a periodic basis. We call this our Continuous Monitoring Program. To accomplish this goal, we use a computer aided audit tool referred to as "Audit Command Language" or ACL. This tool allows the Auditor to access various databases and compare information maintained in

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those databases. Since this is only an access tool, there is no threat the Auditor could modify or corrupt any database.

Reports for the Continuous Monitoring Program are less formal than those for Full System Audits and consists solely of this letter.

OUR REVIEW

We have completed our review of the cash disbursements information stored in the Colorado Springs Utilities (Springs Utilities) Lawson Financial Systems for the period July 1, 2005 to June 30, 2006. The purpose of this review was to determine the integrity of cash disbursement data and payments to vendors. Utilizing automated audit tools, we were able to perform a battery of tests on the data, including but not limited to:

- Search for duplicate check numbers, invoice numbers and invoice dates,
- Search for inappropriate gaps in check numbers,
- Search for unusually large disbursements, negative disbursements and manual checks,
- Search for instances where invoice date is prior to voucher, purchase order, or check date,
- Search for duplicate vendors

Based on the test work performed, the cash disbursement data appeared to be reasonable and reliable. In the course of our review we noted two areas for improvement.

1. Segregation of duties should be strengthened.

The segregation of duties over vendor creation and maintenance should be strengthened. Accounts Payable management indicated prior to our inquiry that the department has scheduled the change in process to be implemented in July 2007.

Prior to issuing this letter, we confirmed that Springs Utilities implemented a change to limit Accounts Payable personnel access to read only. This strengthens internal controls by eliminating the ability of Accounts Payable staff to create and change vendor data.

Auditor's Recommendation:

We recommend Accounts Payable continue to limit the access to create and change vendor data from employees who can enter and process invoices.

Springs Utilities Response:

Accounting continues to seek opportunities to enhance the segregation of duties and strengthen internal controls. Accounting is pleased that the City Auditors Office has affirmed our identification of the issue and our June 27, 2007 implementation to remove the Accounts Payable Technician's security class access to create and to change vendor data.

2. The vendor database contains duplicate vendors.

Auditor's Recommendation:

We recommend a vendor database review and clean up to maintain current and accurate vendor information eliminating duplicate active vendors.

Springs Utilities Response:

Accounting agrees with this recommendation and will implement a plan to review and eliminate duplicate vendor records in our Lawson Financial System, FHAS. Efforts to review and eliminate duplicate vendor records in FHAS will begin in the fourth quarter of 2007 and continue as a quality practice. Accounting believes the action taken to limit access for Accounts Payable Technicians to create and to change vendor data in FHAS also will enhance the control environment related to current and accurate vendor information.

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

Sincerely,



Jeff Litchfield
City Auditor

Cc: Jerry Forte, Chief Executive Officer
Jeanne Brown, Manager, Strategic Planning and Deployment
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