



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

**06-269 – SPRINGS UTILITIES'
SECURITY SERVICES CONTRACT**

PUBLIC REPORT

MAY 15, 2007

Jeff Litchfield, CPA CIA CFE
City Auditor

Denny Nester, CPA CIA
Assistant City Auditor





Office of the City Auditor

PUBLIC REPORT

Date: May 15, 2007

To: Honorable Chairman and Members of the Colorado Springs Utilities Board

Re: 06-269 – Springs Utilities' Security Services Contract

We have completed an audit of Springs Utilities' Security Services Contract.

The purpose of the audit was to evaluate whether Springs Utilities and U.S. Security Associates were abiding by the terms of the contract. Our audit period was the third one-year extension of the agreement originally awarded in 2002.

Generally, we concluded Springs Utilities and U.S. Security Associates were abiding by the terms of the contract. We did have six areas where improvement could be achieved and have noted them in the attached audit report.

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

cc: Jerry Forte, Utilities Executive Director
Edward Easterlin, Planning and Finance Officer
Lorne Kramer, City Manager
Mike Anderson, Asst. City Manager
Sandi Yukman, Integrated Resources Officer
Jeanne Brown, Strategic Planning & Monitoring Manager
Kathy Borja, Enterprise Risk Management Manager
Alan Goins, Facilities Manager
Sonya Thieme, Accounting Manager
Brandt Laird, Security Administrator
Terri Velasquez, City Director of Finance
Vicki Phillips, City Accounting/Payroll Manager
Debbie Griffin, Strategic Planning & Monitoring Analyst

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE

TEL 719-385-5991 • FAX 719-385-5699 • FRAUD HOTLINE 719-385-2387
30 South Nevada Avenue, Suite 604 • P.O. Box 1575, Mail Code 640 • Colorado Springs, CO 80901-1575

Table of Contents

06-269 – SPRINGS UTILITIES’ SECURITY SERVICES CONTRACT

PUBLIC REPORT

	Page
Introduction	
Authorization	2
Organization Placement	2
Scope and Methodology	3
Background	3
Acknowledgement of Performance	3
Overall Conclusions	3
Findings, Recommendations and Responses	
1. The Contract did not stipulate that the Contractor perform a pre-employment drug test as a hiring requirement	4
2. Verification that the security guard applicants possessed the minimum education, experience, and physical fitness requirements was not adequately documented	5
3. Verification that the security guards possessed the physical requirements listed in the Contract was not adequately documented	6
4. Invoices were not date stamped per written procedures	7
5. A reconciliation of Springs Utilities’ costs to total Contractor invoices was not performed	8
6. The Contractor Billing Report was not reviewed by management before being processed for invoicing	9

Introduction

AUTHORIZATION

We performed an audit of the contract for security services between Springs Utilities and U.S. Security Associates (Contractor.) We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706, 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.

1.2.705: 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. The City Auditor shall review the administrative control systems established by the enterprises, department or group managers and by the City Manager, Springs Utilities Executive Director and Memorial Hospital Executive Director and determine whether these control systems are adequate and effective in accomplishing their objectives.

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, 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 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.

ORGANIZATION PLACEMENT

The Colorado Springs 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 entity in this audit was Springs Utilities, which is an enterprise fund of the City of Colorado Springs under the direction of its Chief Executive Officer, who is also a City Council appointee.

Introduction

SCOPE AND METHODOLOGY

The purpose of the audit was to evaluate whether Springs Utilities and U.S. Security Associates were abiding by the terms of the contract for services. The contract in this audit is Contract No. 200304830 (Contract). The Contract was originally let in 2002 and this audit covered the third one-year extension of the original agreement. We also examined the Contract to determine if services were being provided in an economical, efficient, and effective manner as well as whether the goals and objectives of the Contract were being achieved. We also attempted to identify and address additional problem areas as requested by the Contract Administrator or determined from the audit itself. The audit included review and evaluation of procedures, practices, and controls related to the Contract on a selective basis.

We conducted our audit in a manner that met or exceeded the 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

Springs Utilities provides electric, gas, water and wastewater to a service area that generally includes the City of Colorado Springs. The security services for the City and Springs Utilities were provided by an in-house staff of seven, as well as a contract with a third party provider to provide an additional staff of 87.

The Contract being audited was a joint contract originally let as City of Colorado Springs' Contract A001880 and Springs Utilities' Contract 200304830. Throughout this report, we quote specific passages of the Contract and when we do, for clarity purposes, we have substituted the word Springs Utilities for City.

ACKNOWLEDGEMENT OF PERFORMANCE

The Administrative Specialist/Contract Administrator reviewed the existing procedures for the review and processing of Contractor invoices. After evaluating the process, she then created the Quality By Design (QBD) document No. 11522. The creation of the QBD enhanced the efficiency of the invoice review process increasing the effectiveness of the internal controls.

We commend the Administrative Specialist/Contract Administrator for identifying the need for written policies and procedures and creating QBD No. 11522.

OVERALL CONCLUSIONS

Generally, we concluded Springs Utilities and the Contractor were abiding by the terms of the Contract. We did identify six areas where improvement could be achieved and have noted them on the pages that follow.

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. The Contract did not stipulate that the Contractor perform a pre-employment drug test as a hiring requirement.

The Contract stated “the Contractor shall provide Utilities with guards who are free of alcohol and/or drugs.” However, the Contract did not require a guard applicant to pass a drug test.

Former contractors were allowed to objectively assess the need for testing an applicant or employee. Therefore, drug testing was infrequent and inconsistent. Springs Utilities had previously recognized the importance of pre-employment drug testing and required such of its regular workforce. In addition, during our research, the majority of security guard contractors required the applicant to pass a pre-employment drug test. Pre-employment drug testing allows the employer to detect and disqualify candidates who have used illegal drugs.

Auditor’s Recommendation:

We recommend that a specification be included in future security services contracts that require security guard applicants pass a pre-employment drug test.

Springs Utilities’ Response:

Springs Utilities agrees with the recommendation that a specification requiring pre-employment drug testing should be included in future Security Services Contracts. A statement requiring drug testing was included in the 2007 Request for Proposal. The new contractor, who has since been hired, has adopted this requirement and is performing drug testing on all new employees.

Findings, Recommendations and Responses

2. Verification that the security guard applicants possessed the minimum education, experience, and physical fitness requirements was not adequately documented.

The Contract stated that the security guard must meet minimum education, experience, health, and physical standards.

The Contractor stated that the applicants were asked specific questions regarding the minimum standards as part of the interview process. However, we noted that no documentation was provided to confirm if and when questions were asked. In addition, no documentation was provided indicating the responses given by the applicant.

Auditor's Recommendation:

We recommend the Contractor document in the personnel files verification that inquiries were made of the applicant in regards to minimum education, experience, health, and physical standards. In addition, we recommend that the responses of the applicant be documented.

Springs Utilities' Response:

Springs Utilities agrees with the recommendation to provide documentation in the personnel file with the responses of the applicant. Language regarding documenting and retaining the documentation in the personnel file was added to the 2007 Request for Proposal. The new contractor has adopted this requirement and is compliant.

Findings, Recommendations and Responses

3. Verification that the security guards possessed the physical requirements listed in the Contract was not adequately documented.

The Contract stated that Contractor shall ensure that all employees assigned are in good general health without physical defects or abnormalities which would interfere with the performance of duties. The Contractor must produce a health certificate for each security guard when requested. However, in the last two years, a request had not been made.

The Contractor was unable to provide a standard certificate of medical examination completed by a licensed physician because a medical examination was not performed as a pre-employment requirement. In addition, we noted there was no other documentation the Contractor performed an assessment that the contract employee met the physical requirements.

Without an objective assessment, the Contractor cannot ensure that the security guards meet the physical fitness qualifications listed in the Contract.

Auditor's Recommendation:

We recommend that documentation of an objective assessment be provided by the Contractor to verify that the security guard applicants possess the physical qualifications listed in the Contract.

Springs Utilities' Response:

Springs Utilities agrees with the recommendation to validate the physical qualifications of the security guard applicants. The contractor will be required to have a documented process defining their pre-employment procedure for ensuring an objective assessment of the applicant's physical requirements. In addition, Colorado Springs Utilities will follow-up with the Contractor to verify in writing that all security guards possess a health certificate ensuring that the physical fitness qualifications are met as defined in the contract.

Findings, Recommendations and Responses

4. Invoices were not date stamped per written procedures.

According to Springs Utilities' QBD No. 11522, each invoice must be date stamped when received. During our testing, we found a majority of one month's invoices did not contain a date stamp.

Auditor's Recommendation:

We recommend that during the approval process, management confirm that the date has been stamped on the invoice.

Springs Utilities' Response:

Springs Utilities agrees with the above recommendation. The Facilities Management and Security Operations Department's Business Support area will be responsible for date stamping each invoice. Management will confirm the invoice date stamp during their review process.

Findings, Recommendations and Responses

5. A reconciliation of Springs Utilities' costs to total Contractor invoices was not performed.

During testing, we noted an immaterial error on one of the Springs Utilities' internal reports used for departmental planning only. Although incorrect amounts were not found in the Springs Utilities' general ledger entries, a reconciliation of the total Contractor invoices performed at the end of the invoice processing procedure would help identify possible errors.

Auditor's Recommendation:

We recommend that reconciliation of the total Contractor invoices and the sum of the amount charged to Springs Utilities and City along with any adjusting entries be performed before the City Billing is processed.

Springs Utilities' Response:

Springs Utilities agrees that reconciliation of the total Contractor invoices and the sum of the amount charged to Springs Utilities and the City, along with any adjusting entries should be performed before the City Billing is processed. Reconciliations, conducted by the Facilities Management and Security Operations Department's Business professional, will compare the City and Utility invoices to differences in the billing request prior to invoicing the City.

Findings, Recommendations and Responses

6. The Contractor Billing Report was not reviewed by management before being processed for invoicing.

The written procedures, QBD No. 11522, did not require the Security Contract Billing Report for the City to be reviewed by management. During our audit, we noted the report to the City did not provide billable hours or billable rate. Therefore, the City Accounting Department had only limited information with which to perform analysis or approval.

A management review by Springs Utilities would provide additional oversight that might detect errors on the Security Contract Billing report. This oversight would provide assurance that accurate invoices were being produced.

Auditor's Recommendation:

We recommend the Contract Billing report be reviewed by Springs Utilities' management and approved before invoicing the City. We also recommend that greater detail be added to the Contract Billing report.

Springs Utilities' Response:

Springs Utilities, Facilities Management and Security Operations Department's Business Support area, will continue to manage the contracts, reconcile billing issues, and provide detailed information on services to the City. Review and approval of the Contract Billing report will be conducted by Management within the Business Support area to ensure accuracy of invoices prior to invoicing the City. In order to provide greater detail, Consolidated Billing will include copies of all City invoices for security services provided.

City's Response:

The City, through the Finance Department, will work with Utilities in the interim to confirm receipt of detailed information as backup for invoices received related to the Security Services Contract. The Finance Department has had preliminary discussions with Utilities related to future changes in the billing of this contract, and will work collectively with Utilities in any future modifications to billing, including the possibility of direct billing to the City. The Finance Department will participate in any changes to confirm that any future modifications related to billing will result in minimal additional time on the part of City staff, including staff in other departments.