



City of Colorado Springs



City Council's Office of the City Auditor

PUBLIC REPORT

Date: October 24, 2007

To: Honorable Mayor and Members of City Council

Re: 07-127 – City of Colorado Springs - Cash Disbursements 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 sometimes referred to as "Audit Command Language" or ACL. This tool allows the Auditor to access various databases and compare information maintained in those databases. Since this is only an access tool, there is no threat the Auditor could modify or corrupt any database.

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE

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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 PeopleSoft Financial System for the period January 1, 2006 to December 31, 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,
- Search for inappropriate gaps in check numbers,
- Search for duplicate vendors,
- Applied tests to identify anomalies indicative of errors or irregularities

Because the City's method of processing cash disbursements does not include the entering of the invoice date and due date into the system, we were unable to perform the following standard test:

- Search for instances where invoice date is prior to voucher / purchase order / or check date

COMMENDABLE PRACTICES

The City Accounts Payable staff did a creditable job of maintaining a well organized and documented history of payments. Supporting documents are kept in order and easily accessible. The documentation demonstrated a conscientious and consistent staff performance.

FINDINGS AND RECOMMENDATIONS

Based on the test work performed, the cash disbursements data appeared to be reasonable and reliable. In the course of our review, we noted the following internal control weaknesses.

1. Invoice and due dates were not recorded in PeopleSoft.

As mentioned above, we could not adequately test the timeliness of payments because the actual invoice date and due date were not being entered in the voucher entry screen. By not capturing the actual invoice date in PeopleSoft, Accounts Payable could not easily identify invoices paid after the due date. In addition, invoices could not be paid based upon the discount or due date, denying the City the opportunity to maximize cash investments.

Auditor's Recommendation:

We recommend the City research various avenues, with the assistance of IT, to add date fields for the invoice and due dates. We also recommend the City pay invoices based on due date to earn maximum interest on cash balances unless early payment discounts are available.

City's Response:

We agree with the findings. Accounts Payable will work with the IT staff regarding various options to include a date field for invoice and due date, subject to other IT priorities related to the financial system.

2. Segregation of duties over vendor and invoice processing was not adequate.

Accounts Payable personnel had the ability to add a vendor, create a purchase order, enter invoices and create checks.

Auditor's Recommendation:

We recommend the accounts payable functions be separated from procurement and vendor maintenance activities. This segregation should be accomplished by limiting employee's PeopleSoft user access to add, change and delete data.

City's Response:

While we agree with the findings, due to limited staff and other compensating controls in place, we have recognized the risk associated with the current procedure and are willing to accept what we feel are limited risks related to this function.

3. Internal controls related to wire transfers should be strengthened.

There were no written policies and procedures for the wire transfer process and approval authorization. Wire transfers were used by the City for debt service payments, payroll related remittances, transfers for investment purposes and some emergency payment situations. Wire transfers were recorded directly to the PeopleSoft general ledger through a manual journal entry. Consequently the Accounts Payable process controls were not present. Wire transfers create additional risk as there was no systematic mechanism to check for duplicate payments.

Auditor's Recommendation:

We recommend that written policies and procedures be documented for the wire transfer process including approval authorization. We also recommend that wire transfers be recorded in the City's PeopleSoft Accounts Payable sub-ledger for vendor history completeness and control over duplication.

City's Response:

We agree with the recommendation. Documentation has been prepared for the wire transfer process. In addition, the Finance Department is pursuing the use of ACH payments within the Accounts Payable sub-ledger.

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

Sincerely,

A handwritten signature in purple ink that reads "Jeff Litchfield". The signature is written in a cursive, flowing style.

Jeff Litchfield
City Auditor

Cc: Mike Anderson, Interim City Manager
Paul Butcher, Interim Assistant City Manager
Terri Velasquez, Director of Finance
Vicki Phillips, Accounting and Payroll Manager
Patti McFarland, Accounting Supervisor