



CITY OF COLORADO SPRINGS OFFICE OF THE CITY AUDITOR

08-08 - CITY OF COLORADO SPRINGS PAYROLL – FULL SYSTEM REVIEW

PUBLIC REPORT

JULY 23, 2008

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Office of the City Auditor Public Report

Date: July 23, 2008
To: Honorable Mayor and Members of City Council
Re: 08-08 – City of Colorado Springs Payroll - Full System Review

We performed an audit of the City of Colorado Springs (City) payroll function for the 12 months ended December 31, 2006. As of December 31, 2006, the City employed a workforce of 1,889 full time equivalent positions. The General Fund Budget was \$231.4 million with Salaries and Benefit costs of \$153.4 million.

The purpose of this audit was to evaluate the adequacy of the internal control structure, whether the City was processing its payroll in an economical, efficient, and effective manner, and whether the City policies and procedures were being following. The audit included review and evaluation of procedures, practices, and controls of the various divisions of the City on a selective basis.

We conclude the overall internal control structure was adequate, transactions were processed effectively and efficiently, and policies and procedures were being followed. During the course of our audit, we did identify two areas where we believe internal controls can be strengthened.

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

Sincerely,

A handwritten signature in purple ink that reads "Jeff Litchfield".

Jeff Litchfield
City Auditor

cc: Penelope Culbreth-Graft, DPA, City Manager
Mike Anderson, Assistant City Manager
Ann Crossey, Human Resource Director
Terri Velasquez, Director of Finance
Vicki Phillips, Accounting/Payroll Manager
Kimberly Bingman, Payroll Section Supervisor
Peg Richardson, Construction Maintenance Support Manager

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE

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Introduction

08-08 – City of Colorado Springs Payroll – Full System Review

PUBLIC REPORT

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Abbreviations and Acronyms used in this Report

City – City of Colorado Springs

IRS - United States Department of Treasury – Internal Revenue Service

PSHRMS – PeopleSoft Human Resources Management System

Introduction

AUTHORIZATION

We performed an audit of the City of Colorado Springs (City) payroll function for the 12 months ended December 31, 2006. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the City Code, and more specifically parts 703, 705, 706, and Part 709 (B) and (C) of the Code, 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, 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.

1.2.709: MAKE PERIODIC REPORTS TO COUNCIL:

The City Auditor shall make periodic reports to Council which shall include the following:

- B. Information of proposals deemed expedient in support of the City's credit, and recommendations for lessening expenditures, for promoting frugality and economy in City affairs and for an improved level of fiscal management;
- C. Matters concerning the effectiveness and efficiency of the programs and operation of the City;

Introduction

ORGANIZATIONAL PLACEMENT

The 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 City Council. The audited entity in this audit was the City Finance – Payroll Section, which is under the reporting structure of the City Manager. The City Manager is a City Council Appointee.

SCOPE AND METHODOLOGY

The purpose of our audit was to evaluate the adequacy of the internal control structure; whether the City was processing its payroll in an economical, efficient and effective manner and whether the City policies and procedures were being following. The audit included review and evaluation of procedures, practices and controls of the various divisions of the City on a selective basis. Our fieldwork covered the twelve months ended December 31, 2006.

The audit was conducted in accordance 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. The audit included interviews with appropriate personnel and included such tests of records and other supporting documentation as 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

Section 1.2.704 of the City Code states: “The City Auditor shall perform a current post-audit of the financial operation of the City government and its enterprises” and section 1.2.705 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 at least once every five years. The purpose of these system audits is to evaluate internal controls that are used to ensure the reliability of financial information. Payroll is one of the major systems that will be audited on a rotating basis.

In 2006 the City employed a workforce of 1,889 full time equivalent positions. The General Fund budget was \$231.4 million with Salaries/Benefits costs of \$153.4 million or 66% of the City’s total General Fund budget.

OVERALL OPINION

We conclude the overall internal control structure was adequate, transactions were processed effectively and efficiently, and policies and procedures were being followed. During the course of our audit, we did identify two areas where we believe internal controls can be strengthened.

We have made no determination as to which findings are more important than others. Therefore, the findings are not necessarily listed in order of importance.

Findings, Recommendations, and Responses

1. The Streets Department does not have a disaster recovery plan for its employee time keeping system.

The Streets Department developed a database to track employee time for payroll purposes. Such data is transferred to City Payroll on a biweekly basis for payroll processing. The Streets Department has not developed a disaster recovery plan for its employee time keeping system. Disaster recovery is the process of regaining access to the data, hardware, and software necessary to resume critical business operations after a natural or human induced disaster. A disaster recovery plan should also include plans for coping with the unexpected or sudden loss of key personnel. Per the City's *Information Technology Security Policies Manual*:

Department-level information technology managers and system administrators shall have a documented plan or procedure to provide for disaster recovery for their information technology assets and systems. This plan shall address immediate business continuity, short-term disaster recovery, and long-term disaster recovery.

Without a disaster recovery plan, the Streets Department may not be able to recreate the data necessary to accurately pay its employees on payday in the event of a disaster.

Auditor's Recommendation:

We recommend the Streets Department develop a disaster recovery plan for its employee time keeping system.

City's Response:

While the Payroll Department prefers to receive the electronic file from the Streets Department, it is not a requirement. The Payroll Department would be able to accept the paper time cards from the Streets Department and enter it into the PeopleSoft HRMS system if the electronic data was lost or unavailable without any delay in the processing of the City's Payroll as the file contains data for less than one hundred employees.

The Streets Department agrees with the finding and the recommendation to develop a disaster recovery plan for their time keeping system as this was a known issue prior to the Payroll Audit and is continuing to work with the City's Information Technology Department to do so. The Streets Department developed their database for Project Management purposes, which includes labor tracking, but it was not designed specifically for payroll purposes.

Findings, Recommendations, and Responses

2. Access to add a new employee and change pay rates in PSHRMS was not restricted to Human Resources personnel.

We reviewed all users with access to add a new employee and change pay rates in PSHRMS. Our purpose was to ensure data accessibility was limited according to job function. If access is not appropriately limited, individuals outside the Human Resources Department could erroneously or fraudulently add a new employee and/or change pay rates of existing employees. We identified 24 users who had inappropriate access to add a new employee and change pay rates in PSHRMS:

Seven Finance Department Users
Four Payroll Department Users
Four Benefits Department Users
Five Information Technology Department Users
Four generic test user accounts

During the summer months a large volume of temporary employees are hired by the City. Historically, Payroll Department users have added temporary employees to PSHRMS due to limited staffing resources in Human Resources.

Auditor's Recommendation:

We recommend access to add a new employee and change pay rates be limited to Human Resources personnel. If the Human Resources Department does not have adequate staffing to enter temporary employees and they delegate this function to the Payroll Department, exception reports should be developed and reviewed by the Human Resources Department to ensure appropriateness and accuracy of data entered.

City's Response:

Temporary Employee Processing – Payroll/Finance Department:

While Human Resources does not have adequate staffing to enter personnel actions on temporary employees in the HR System, we have a compensating control in place that has been approved by the Senior Auditor on this audit as a control that will mitigate the risk of fictitious employees being added to the system.

The process is completed in HR on a bi-weekly basis following our payroll data entry schedule and utilizes the following:

1. A query of the HR system identifying all “new hire” actions processed during the last pay period regardless of which department completed the data entry.
2. A query of the Federal program for I-9 eligibility verification called E-Verify.
3. The two sets of information are reconciled and any discrepancies are investigated.

We would like to note that the City is required to process I-9 eligibility information through this federal system on all new employees. Only E-Verify Authorized Users in HR or in Parks and Recreation Administration complete processing of temporary employee I-9 eligibility.

Findings, Recommendations, and Responses

Adding employees - Benefit Department and Test Accounts

New security permission lists will be created for the HR Benefit users that will not include the ability to “Hire” a new employee.

All other staff need to have access as noted due to their job responsibilities.