



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

**08-11 – CITY OF COLORADO SPRINGS  
CONTRACTING DIVISION**

**PUBLIC REPORT**

**AUGUST 13, 2008**

Jeff Litchfield, CPA CIA CFE  
City Auditor

Denny Nester, CPA CIA CGFM  
Assistant City Auditor

Jacqueline Rowland, CPA  
Senior Auditor





## Office of the City Auditor Public Report

Date: August 13, 2008  
To: Honorable Mayor and Members of City Council  
Re: 08-11 – City of Colorado Springs Contracting Division Report

We performed an audit of the City of Colorado Springs Contracting Division (Division) for the period June 1, 2006 to June 30, 2007. In 2006, the Division processed 575 purchase orders and 413 contracts totaling \$156 million dollars.

The purpose of our audit was to evaluate whether the Division was efficiently acquiring goods and services while adequately safeguarding resources. We also evaluated whether the City of Colorado Springs, as an entity, was abiding by the internal policies and procedures established for acquiring and safeguarding of resources. We limited our scope to items greater than \$5,000 as purchases less than this amount did not require Division involvement. Our scope included review of system access to the PeopleSoft financial system.

We concluded that overall, goods and services were being acquired in an efficient manner, assets were adequately safeguarded, and the policies and procedures established for acquiring and safeguarding of resources were being followed. The attached audit report contains findings and recommendations for areas where we believe internal controls could 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  
Michael Anderson, Assistant City Manager  
Terri Velasquez, Director of Finance  
Steve Gess, Contracting Manager  
Vicki Phillips, Accounting and Payroll Manager  
Curly Matthews, Chief Information Officer  
Paul Walker, Information Systems Manager

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

---

# 08-11 – City of Colorado Springs Contracting Division

## PUBLIC REPORT

	Page
Introduction	
Authorization .....	2
Organizational Placement.....	3
Scope and Methodology .....	3
Background.....	3
Commendable Practices .....	4
Overall Opinion .....	4
Findings, Recommendations and Responses	
1. Approvals for four of the eight sole source purchases reviewed were not on file .....	5
2. Segregation of duties concerning Purchase Orders, vendor data, and invoice processing was not adequate .....	6
3. Excessive, unnecessary, and invalid active users were assigned as system administrators.....	7
4. Some employees were allowed access to the PeopleSoft purchasing module who did not have a valid business reason for access. ....	8

### Works Cited:

- Arens, Alvin A and Loebbecke, James K. (2000). *Auditing, An Integrated Approach*. 8th Edition. Prentice Hall. ISBN 0-13-082735-5

### Abbreviations and Acronyms used in this Report

City	City of Colorado Springs
Division	Contracting Division of the City Finance Department
IT	Information Technology
HR	Human Resources
PO	Purchase Order
ID(s)	Identification(s)
VISA	Purchasing Card Program

---

## Introduction

---

### AUTHORIZATION

We performed an audit of the City of Colorado Springs (City) Contracting Division (Division) for the period June 1, 2006 to June 30, 2007. 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 Contracting Division of the City Finance Department, which is under the reporting structure of the City Manager. The City Manager is a City Council Appointee.

### SCOPE AND METHODOLOGY

The purpose of this audit was to evaluate whether the Contracting Division was efficiently acquiring goods and services while adequately safeguarding resources. We limited our scope to items greater than \$5,000 as purchases less than this amount did not require Division involvement. We also evaluated whether the City, as an entity, was abiding by the City Code along with internal policies and procedures established for the acquiring and safeguarding of resources. The areas reviewed included the processes used in purchasing, contracting, and receiving. Our scope included the period June 1, 2006 to June 30, 2007. The scope covered limited PeopleSoft controls to include review of user access and system imposed segregation of duties.

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

In calendar years 2006 and 2007 respectively, the following volume of Purchase Orders and Contracts was processed by the Division:

	<u>2006</u>	<u>2007</u>
Purchase Orders	575 = \$17,900,445	838 = \$27,091,129
Contracts	413 = \$138,186,725	566 = \$53,757,047

The Division was staffed by nine employees including one manager, one administrative clerk, and seven analysts. Items purchased for less than \$5,000 were handled at the department level and were not reviewed or included in the stats above.

---

## Introduction

---

### COMMENDABLE PRACTICES

The Contracting Division has been recognized locally and nationally for multiple innovations and accomplishments. The Division is one of only 14% of all state, municipal, and county agencies nationwide with 100% fully Certified Professional Procurement staff. The Division has initiated programs to reduce workload by decentralizing small (less than \$5,000) purchases as well as implementing the Purchasing Card Program (VISA). Currently, the VISA program generates over \$100,000 per year in cash rebates for the City. This Division has been noted for web based procurement innovation, 'Best Value' Request For Proposal process, and 2007 Contracting Manager of the Year for Rocky Mountain Government Purchasing Association.

### OVERALL OPINION

We conclude that overall, goods and services were being acquired in an efficient manner, assets were adequately safeguarded, and the policies and procedures established for acquiring and safeguarding of resources were being followed. However, during the course of our audit, we did identify areas where we believe internal controls can be strengthened. These areas are listed on the pages that follow.

***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. Approvals for four of the eight sole source purchases reviewed were not on file.

Per Purchasing Rules and Regulations, a written justification approved by the City Contracting Manager and any other approving authority depending on total value of the procurement, shall be included in the file for all procurements that exceed the competition threshold of \$5,000 that were awarded as sole source. We reviewed 40 purchases and eight of these purchases were characterized as sole source purchases. In four of the eight purchases, there was no evidence that the Contracting Manager approved the sole source justification.

Prior to the issuance of this report, the Division updated the language of the Rules and Regulations to allow Contract Specialists to approve all sole source purchases up to \$50,000. Sole source purchases above this amount still require the Contracting Manager's approval. All of our exceptions were below the \$50,000 threshold and we support this policy change.

#### ***Auditor's Recommendation:***

We recommend Contracting approve and document sole source purchases as required by Purchasing Rules and Regulations.

#### ***City's Response:***

We agree with the finding and recommendation. The Contracting Manager did not sign four sole source justifications as required by the City's Procurement Rules and Regulations. Authorization for these sole source justifications was completed by the Procurement Analyst instead of the Contracting Manager. The purchases were reviewed and approved by the assigned Procurement Analyst according to the City's Procurement Rules and Regulations criteria for sole source justification. In all four instances there was a valid written sole source justification in the Contracting file and all four purchases were less than \$50,000. However this did not comply with the City's Procurement Rules and Regulations. As a result of the audit findings revisions were made to the Procurement Regulations to reflect the existing practices by providing the Procurement Analyst authority to approve sole source justifications up to \$50,000.

---

## Findings, Recommendations, and Responses

---

### 2. Segregation of duties concerning Purchase Orders, vendor data, and invoice processing was not adequate.

The Accounts Payable Division had the ability to enter invoices and make payments to authorized vendors for authorized purchases. During our audit, we noted the Accounts Payable Division also could add or modify vendors and authorize purchases. They were given access to do this electronically.

The textbook, *Auditing--An Integrated Approach*, states:

If possible, it is desirable to prevent persons who authorize transactions from having control over the related asset. The authorization of a transaction and the handling of the related asset by the same person increase the possibility of defalcation within the organization (Arens & Loebbecke, 2000, p.296).

In most large organizations, the Contracting Division is responsible for authorizing purchases and maintaining authorized vendor data. In those organizations, the Accounts Payable Division then acts as a validation check on the data by verifying that the address on invoices are the same as the authorized remittance address maintained by the Contracting Division. The Accounts Payable Division should not allow payments to be made to anyone or mailed to any address that is not authorized by Contracting.

We were told that in order to process payments in a timelier manner, Accounts Payable personnel had been authorized to add, change or delete Purchase Orders and Vendors. However, this authority also increases the possibility that inappropriate payments could be made and remain undetected. When this situation was previously brought to the attention of Finance Department management, they chose to implement a rule that no one would be allowed to check their own work, i.e., after checks were printed, someone other than the person entering an invoice for payment would verify that the address on the invoice and check were the same. This process would help to ensure that data entry errors were caught, but would not negate the possibility of unauthorized or inappropriate payments being processed.

#### ***Auditor's Recommendation:***

We recommend accounts payable functions be separated from procurement and vendor maintenance activities. This segregation should be accomplished by removing Accounts Payable employee's PeopleSoft user access to add, change and delete Purchase Orders and Vendor data.

#### ***City's Response:***

We agree with the finding and recommendation. A similar audit finding was presented in 2004 and the proposed solution to segregate the duties within Accounts Payable section was acceptable to the auditor at that time. These changes provided proper safeguards to prevent unauthorized or inappropriate payments. No further changes were made until it was determined during this audit that these procedures did not meet current internal control standards. In light of this recent finding we have implemented the audit recommendation to further segregate vendor approval duties. Accounts Payable staff no longer has the ability to add and approve new vendors. This function is now completed by staff in the Contracting Division.

---

## Findings, Recommendations, and Responses

---

### 3. Excessive, unnecessary, and invalid active users were assigned as system administrators.

We identified 16 active users assigned to the administrator role on PeopleSoft Financial. A system administrator is a high level user with extensive access. Of these,

- Two users were former Finance employees that have since been inactivated.
- Three of the user identifications (IDs) were not assigned to an employee. The user IDs were actually templates used by the Information Technology (IT) Department. We learned that two of these templates were no longer needed and could be inactivated or deleted.
- The remaining system administrators included seven Finance users and four IT users.

We found that two of the seven Finance users actively served as system administrators.

We acknowledge that IT users need access to the system, however, that access should be limited to the test environment with read only access to the production environment.

There were no system generated reports to review the activity of the system administrators.

#### ***Auditor's Recommendation:***

We recommend management reduce system administrative access from 16 to two employees and that access by IT users be limited to the test environment. Also, reports should be developed to monitor system administrator activity.

#### ***City's Response:***

We agree with this finding and have implemented the recommendation. There are now only two system administrators that have system access and control.

---

## Findings, Recommendations, and Responses

---

**4. Some employees were allowed access to the PeopleSoft purchasing module who did not have a valid business reason for access.**

An analyst assigned employees' user access to the PeopleSoft purchasing module. A spreadsheet was maintained containing users that had been given access and signed a user compliance form. We compared that spreadsheet on a sample basis to user access PeopleSoft reports for accuracy and completeness.

We found inactive users in the spreadsheet designated as active in PeopleSoft reports and vice versa.

In some cases, the users on the spreadsheet had changed positions and no longer required access to the purchasing module. The purchasing analyst was unable to delete access and had not communicated this information to the System Administrators for correction.

***Auditor's Recommendation:***

We recommend management create a tracking mechanism to ensure only authorized users have access to the purchasing module. Purchasing staff's documentation of users should be updated for accuracy and user access changed as needed for valid active users.

***City's Response:***

We agree with this finding and recommendation. We have implemented a new procedure which requires the PeopleSoft security administrator to review on a timely basis a list of employees that are terminated or retire. The termination or retirement list is compared to the current list of PeopleSoft users and terminated and retired users are deleted accordingly. In addition the Finance Department will confirm user access requirements with all departments annually to determine changes in job responsibilities and the impacts to user requirements.