



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

**09-13 – COLORADO SPRINGS UTILITIES  
PAYROLL FULL SYSTEM REVIEW**

**PUBLIC REPORT**

**JUNE 18, 2009**

Jeff Litchfield  
City Auditor

Denny Nester, MBA CPA CIA CFE  
Assistant City Auditor

Jacqueline Rowland, CPA  
Senior Auditor





## Office of the City Auditor

Date: June 18, 2009  
To: Honorable Mayor and Members of City Council  
Re: 09-13 – Colorado Springs Utilities Payroll Full System Review

We performed an audit of Colorado Springs Utilities (Springs Utilities) Payroll function for the six months ended June 30, 2008. As of June 30, 2008, Springs Utilities employed approximately 1,900. For the six months ended June 30, 2008 gross payroll expenditures totaled \$80.6 million.

The purpose of our audit was to evaluate the adequacy of the internal control structure, whether Springs Utilities was processing its payroll in an economical, efficient, and effective manner, and whether Springs Utilities policies and procedures were being followed.

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 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 blue ink that reads "Jeff Litchfield".

Jeff Litchfield  
City Auditor

Cc: Jerry Forte, Utilities Executive Director  
Sandi Yukman, Human Resources General Manager  
Karin Hollohan, Human Resources Manager  
Lauren Cargil, Human Resources Supervisor  
Dawn Roth, Information Technology Services General Manager  
William Lopez, Jr., Information Technology Services Manager  
David Maier, Enterprise Risk Management Services Manager  
Debbie Griffin, Sr. Analyst, Enterprise Risk Management  
Luann Wagar, Sr. Analyst, Enterprise Risk Management

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE CGAP

TEL 719-385-5991 • FAX 719-385-5699 • HOTLINE 719-385-2387 • REPORT WEBSITE [WWW.CITYAUDITOR.ORG](http://WWW.CITYAUDITOR.ORG)  
30 South Nevada Avenue, Suite 604 • P.O. Box 1575, Mail Code 640 • Colorado Springs, CO 80901-1575

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### Abbreviations and Acronyms Used in this Report

FHAS	Financial Human Analytics System
PERA	Colorado Public Employees' Retirement Association
RMS	Resource Management System
SSA	Social Security Administration

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## Introduction

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### AUTHORIZATION

We performed an audit of Colorado Springs Utilities (Springs Utilities) Payroll function. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the City Code, and more specifically parts 703, 705, and 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, 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.

#### 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;

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## Introduction

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### 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 the City Council. The audited entity in this audit was Springs Utilities, under the direction of their Chief Executive Officer. Springs Utilities' Chief Executive Officer is also a City Council Appointee.

### SCOPE AND METHODOLOGY

The purpose of our audit was to evaluate the adequacy of the internal control structure, whether Springs Utilities was processing its payroll in an economical, efficient, and effective manner, and whether Springs Utilities policies and procedures were being followed.

We conducted our audit 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. 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. Our audit period was the six months ended June 30, 2008.

### BACKGROUND

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.

As of June 30, 2008, Springs Utilities employed approximately 1,900. For the six months ended June 30, 2008, gross payroll expenditures totaled \$80.6 million.

### COMMENDABLE PRACTICES

Springs Utilities Payroll Department has increased payroll processing efficiencies by converting manual processes to systematic processes. For example, all employees are required to receive payroll disbursements and advices electronically, a new status code was created for probationary special employees, and the vacation buy decision process has been automated through employee self-service.

### 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 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.***

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## Findings, Recommendations, and Responses

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### 1. The bank reconciliation was not complete and did not show evidence of a supervisor's review.

During our review of the April 2008 bank reconciliation, we noted several exceptions. We noted reconciling items that were not on the reconciliation and differences that were not accounted for in the documentation. The reconciliation was not signed as reviewed by the Accounting Supervisor.

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

The reconciliation process should be improved to reconcile activity adequately between the bank and the general ledger. The Accounting Supervisor should review the reconciliation with evidence by signature and date each month.

#### ***Springs Utilities Response:***

Colorado Springs Utilities agrees with the Office of the City Auditor's recommendation that the reconciliation process should be improved to reconcile activity adequately between the bank and the general ledger. Accounting has an established process to reconcile monthly activity between bank and general ledger in a timely manner, which includes review by the General Accounting Team Supervisor as indicated by a signature and date.

Beginning in February 2008, Accounting identified a project to review and clear all stale reconciling items on the bank reconciliation. This improvement project was independent of the City Auditor's Payroll Audit and was initiated prior to audit fieldwork. The bank reconciliation audit exceptions identified occurred during the time the project was in progress. At the conclusion of the project, each stale reconciling item was thoroughly researched and resolved. As of December 31, 2008, there were only current month reconciling items on the bank reconciliation. In addition, Accounting enhanced bank reconciliation processes and strengthened internal controls.

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## Findings, Recommendations, and Responses

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### 2. Two employees had unlimited add/change/delete access to the payroll system with no compensating controls in place.

Actions completed by users assigned to the Financial Human Analytics System (FHAS) ADMIN security class were not limited or logged for control over activity. Two employees were identified with this level of access. No monitoring reports or other such controls were in place to review the employee's data activity. The current version of FHAS did not have the ability to monitor transactions performed by users in the ADMIN security class.

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

We recommend transaction processing by the users in the ADMIN security class be performed using a userid that is not in the ADMIN class. Until a system version is in place to log transactions under the ADMIN class, this is the only way to track transaction processing for these employees.

#### ***Springs Utilities Response:***

Colorado Springs Utilities agrees with the Office of the City Auditor's recommendation that transaction processing by the users in the ADMIN security class be performed using a userid that is not in the ADMIN class. The ADMIN security class is designed to not only facilitate system application administration but also provide the two individuals within this security class back-up capability for one another. Although the ADMIN security class does have access to all processes in the Financial Human Analytics System (FHAS), the individuals in this security class no longer have access to accounts payable or payroll check stock.

At this time, the Financial Human Analytics Systems (FHAS), also referred to as Lawson, does not have the system functionality to generate audit trail reports for review of the activity performed by any user in any security class. However, Colorado Springs Utilities is in the process of implementing a Lawson environment (LSF 9.0) upgrade. It includes a new security module, which will be phased in by December 31, 2009. Additional features included in the security module will be explored to address these concerns.

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## Findings, Recommendations, and Responses

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### 3. The Payroll Supervisor should not have add/change/delete access to employee Financial Human Analytics System screens.

The Payroll Supervisor had access to system activity for generating employee identification numbers, setting up and changing employee deductions, direct deposits, and the manual check process. For supervisory roles, approval access, not data entry access is appropriate for internal control best practices.

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

We recommend the Payroll Supervisor security access be updated to prohibit add/change/delete access to these processes mentioned above. Access should be limited to job requirements.

#### ***Springs Utilities Response:***

Colorado Springs Utilities partially agrees with the Office of the City Auditor's recommendation that the Payroll Supervisor security access be limited to job requirements. With recent resource reductions, it is possible that access will need to be granted to the Payroll Supervisor on occasion. Situations which would require access be granted to the Payroll Supervisor include those times when only one other payroll staff member is available to process payroll. In those events, Payroll Supervisor access capabilities will be changed back to the minimum requirements within 24 hours after the required tasks are complete.

Regardless of access, under no circumstances does the Payroll staff have the ability to add new employees. Additionally, Springs Utilities policies prohibit Payroll employees from making changes to their own records. For monitoring purposes, regular reports are generated and reviewed by the Payroll Supervisor for any changes to Payroll staff entry capabilities. If situations arise where the Payroll Supervisor is granted access to assist in processing payroll then his/her Manager would be responsible for reviewing the reports.

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## Findings, Recommendations, and Responses

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### 4. Payroll withholding and liability general ledger accounts were not adequately reconciled or reviewed.

We reviewed the March 2008 reconciliations for two payroll deduction accounts. In both cases, the balances did not agree to the general ledger. Supporting documents were not attached to the reconciliation. The documentation appeared to be a reconciliation of the amount withheld from the payroll run to the amount remitted to the vendor and did not reconcile to the general ledger. Further, no evidence of a review and approval by someone other than the preparer was found.

The reconciliations were prepared by the Payroll staff and did not include Accounting staff directions or involvement.

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

We recommend the reconciliation process for Payroll withholding and liability accounts be improved as follows:

- Reconciliation procedures should be established.
- All Payroll transactions should be reconciled to the general ledger monthly.
- Reconciliations should be review and approved by someone other than the preparer.

#### ***Springs Utilities Response:***

Colorado Springs Utilities agrees with the Office of the City Auditor's recommendation that the reconciliation process for Payroll withholding and liability accounts be improved. In November of 2008, the process of reconciling payroll transactions to the general ledger was transitioned from Accounting to Payroll and is now being conducted on a monthly basis. The Payroll Supervisor conducts a review of the reconciliation report.

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## Findings, Recommendations, and Responses

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### 5. Payroll time recorded in Resource Management System should agree to Financial Human Analytics System payroll records.

We noted two instances in our review where the payroll time recorded in Resource Management System (RMS) by an employee did not match FHAS payroll records. Time was entered by the employee and approved by a supervisor in RMS. This data interfaced with FHAS for payroll recordkeeping and disbursement. If a correction to the time record was required after the interface occurred, the Payroll department processed the adjustment in FHAS. The adjustment was made in FHAS but not corrected in the RMS system.

Time records in RMS allocate applicable labor costs by project number. These records could be inaccurate if corrections were not updated in RMS.

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

We recommend management develop a process to ensure payroll time records are updated in RMS as well as FHAS.

#### ***Springs Utilities Response:***

Colorado Springs Utilities agrees with the Office of the City Auditor's recommendation that there be a process to ensure payroll time records are updated in the Resource Management System (RMS) as well as the Financial Human Analytics System (FHAS). QBD document #00012 – Time Reporting, Version 11, section 6.4 Processing Corrections outlines the steps employees are required to take to correct pay codes for time that is entered within and outside of the current pay periods.

To help ensure the Supervisor or Manager responsible for making the corrections takes action on the previously mentioned steps; Payroll sends an email to the employee and the Supervisor or Manager informing them to make the required changes. This Payroll responsibility is included in section 5.6 of QBD #00012 – Time Reporting, version 11. This step will also be added to the QBD #09723 – Payroll Processing document by June 30, 2009 and communications to Colorado Springs Utilities employees will be made to reiterate the importance of making the required changes in RMS.

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## Findings, Recommendations, and Responses

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### 6. Employees other than supervisors and managers have access to approve time records.

We reviewed all employees with access to approve time records in RMS to verify their supervisor or manager status in compliance with Springs Utilities' approval policy. Our results indicated 215 employees outside of management and supervisors had access to approve time records in RMS.

- Thirteen employees had access as information system support personnel.
- Fourteen non-supervisor or management employees had 'Timekeeper' access that provided access to enter and approve time.
- Two employees who were no longer employed at Springs Utilities had active access.
- Finally, 186 employees had access who were not supervisors or managers. These employees were not designated Timekeepers or system support personnel.

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

We recommend removal of RMS time record approval access to all employees who are not supervisors or above. Management should develop Timekeeper and system support access that is not in violation of policy.

#### ***Springs Utilities Response:***

Colorado Springs Utilities partially agrees with the Office of the City Auditor's recommendation to remove Resource Management System (RMS) time record approval access to all employees who are not supervisors or above. System access is necessary for system support personnel to perform system monitoring and provide system support for the organization. Access is also necessary for employees who have been designated as Timekeepers by their Manager or Supervisor to assist with the processing of time records.

A project is underway to upgrade RMS from Maximo version 4.1.1 to version 6.22. The upgraded system will include system controls to prevent non-supervisory employees from approving time, except in the instance of employees who are designated as Timekeeper for their area. The upgraded system will allow Colorado Springs Utilities to formalize the roles of Timekeeper and system support personnel and will provide tracking capabilities. To ensure non-supervisory employees, including Timekeepers, do not perform the 'one-out' process as prohibited in QBD #00012 – Time Reporting, system monitoring will continue to be performed on a quarterly basis with results provided to Payroll to identify those individuals who have approved time. The upgrade is scheduled to go-live in late spring, 2009.

Discrepancies identified during the audit have been addressed. Of the two employees who were identified as having an active status yet were no longer employed with Springs Utilities, one employee has been deactivated with no access to the system. The other employee has returned as a contractor and is active in the system but is restricted from entering time and is not designated as a timekeeper setting.

Of the 186 employees identified with approval access, 168 employees were limited to time entry for their own labor record and are restricted from entering or approving time for other

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## **Findings, Recommendations, and Responses**

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employees. The remaining 18 employees were confirmed to be back-up timekeepers by their direct supervisors. All 18 employees are now identified in RMS as timekeepers.

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## Findings, Recommendations, and Responses

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**7. Springs Utilities should verify all employees and retirees receiving payroll and Colorado Public Employees' Retirement Association benefit subsidy disbursements annually with the Social Security Administration.**

During our review, only new hire employees were included in the file sent to Social Security Administration (SSA) for annual verification. Subsidy payments were disbursed to retirees monthly and no formal process was in place to identify the passing of retired employees as notification of stop making payments. Retirees who have passed away could receive benefit payments erroneously without a verification process in place.

***Auditor's Recommendation:***

We recommend management send a list of all employees who receive payroll disbursements during the year to SSA for verification and update payroll records accordingly.

***Springs Utilities Response:***

Colorado Springs Utilities agrees with the Office of the City Auditor's recommendation that a list of all employees who receive payroll disbursements during the year be sent to the SSA for verification.

Annually, a list of all employees who are eligible to receive payroll disbursements from Springs Utilities during the year will be sent to the Social Security Administration. In 2008, the list was sent in the October/November timeframe.

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## Findings, Recommendations, and Responses

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### 8. System Administrators should not use generic usernames and passwords.

During our review, we identified three RMS system administrators who shared a generic username and password. The activity under this username was not auditable or trackable by individual employee. This was a violation of Springs Utilities' policies.

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

We recommend system administrators be assigned unique username and passwords in order to track and audit employee system activity.

#### ***Springs Utilities Response:***

Colorado Springs Utilities agrees with the Office of the City Auditor's recommendation that system administrators be assigned unique username and passwords in order to track and audit employee system activity. The current version of Colorado Springs Utilities' Resource Management System (RMS), Maximo version 4.1.1 does not accommodate the use of unique usernames and passwords for system administrators. A project is underway to upgrade the RMS system from Maximo version 4.1.1 to version 6.22. The upgraded system will support unique usernames and passwords as well as tracking capabilities. The upgrade is scheduled to go live in late spring, 2009.