



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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17-05 City of Colorado Springs Cash Disbursements Audit

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Purpose

The purpose of this audit was to evaluate the internal controls over cash disbursements in place to ensure reliability of financial information while adequately safeguarding resources.

Highlights

We conclude that internal controls over cash disbursements were adequate to ensure reliable financial information and safeguarding of resources. We identified five observations to strengthen internal controls as well as one opportunity for improvement.

To accomplish our audit objectives, we obtained an understanding of the internal control structure for cash disbursement operations. We also reviewed available literature as well as published reports by other audit functions to identify expenditure cycle internal control best practices.

Audit procedures included interviews of management and staff along with observations of operating processes. Additionally, we performed data analytic tests such as review of the vendor master file for duplicate vendors. Our work was coordinated with the work of the City of Colorado Springs external auditors.

Our audit period was the nine months ended September 30, 2016. During our audit period, the Accounts Payable section in City Finance processed 20,446 payments totaling \$169,079,689 in expenditures. The last audit of City Cash Disbursements covered the first six months of 2011.

Commendable Practice:

We note that City Finance had conducted a review of their service delivery model. Based on that review, City Finance was working towards increased centralization and automation of invoice processing.

Management Response

Management was in agreement with our recommendations.

Recommendations

1. Training by City Contracting should emphasize the policy related to employee owned businesses. City Contracting or City Finance should also perform regular employee and vendor data comparisons.
2. City Contracting or City Finance should review the vendor master file on a periodic basis and archive inactive vendors.
3. City Finance should verify vendor data. Change procedures should require verifying and maintaining support for data changes.
4. City Finance should perform regular reviews of employee system access profiles. When the system is upgraded, City Finance should separate vendor change and approval duties.
5. City Finance and the Department of Information Technology should review the Information Technology issue and identify a solution.

Opportunity for Improvement

1. Consider a systemic control to prevent or detect possible duplicate payments.

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Observation 1

We identified payments made for the period 2014-2016 to three businesses owned by City employees or their immediate families.

Policy was not followed. The policy requires disclosing ownership of such businesses and competitive bidding be followed for purchases from employee-owned businesses. The purchases were small dollar contracts that normally would not require formal bids.

A process was not in place to regularly compare employee and vendor file data to detect potential non-compliance. A similar finding was noted in Report 13-15 City Procurement.

Management Response

City Contracting: Management agrees with the recommendations. We will work with City IT to develop a report, if feasible. We will emphasize city policy related to employee-owned businesses in 2017 user training.

City Finance: Management agrees with this recommendation. Accounts Payable and Payroll/Pension management is now combined. We will develop a process to compare the vendor file to the employee database now that there is shared access between the two systems. The Central Finance Manager will access the database as part of the new vendor approval process to check for overlap.

Recommendation

Training conducted by City Contracting for user departments should emphasize the policy related to employee-owned businesses.

City Contracting and or City Finance should compare employee and vendor data regularly to identify potential non-compliance.

Observation 2

The Accounts Payable master file included inactive vendor records that had not been archived in a number of years.

- Inactive vendors were flagged in the system, but payments could be processed to these vendors.
- Approximately 17% of vendor records were inactive at September 30, 2016.

Inactive vendor records increased the risk that the vendor account could be used to process an improper payment, although mitigating controls were in place.

Management Response

City Contracting: Procurement will work with Accounts Payable to purge vendors.

City Finance: Management agrees with this recommendation and plans to inactivate and archive vendors for which there has been no activity for the last five years and update annually going back five years each time.

Recommendation

The vendor master file should be reviewed on a periodic basis, at least annually, and inactive vendors moved to archive status.

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Observation 3

We noted the following related to vendor master file updates:

- The process for approving new vendors or vendor name changes did not require verification of the taxpayer ID (TIN) number to the IRS website.
- A new taxpayer request for TIN and certification form was not always obtained and retained when vendor name changes were processed.
- Vendor address changes could be updated based upon receipt of an invoice and did not require confirmation.

Effective vendor master file controls help protect against improper payments, such as to fictitious vendors.

Management Response

City Finance: Management agrees with this recommendation. Central Finance will verify EINs for new vendors as part of the approval process. Accounts Payable employees have been instructed to call vendors when invoices are received with changes to remittance addresses and to require updated W-9 forms when there is a vendor name change.

Recommendation

City Finance should verify all taxpayer data via the IRS website to validate TIN, form of business, and address. When name changes are requested, a new taxpayer certification should be requested and retained. When name changes are noted on invoices, the vendor should be contacted to confirm the change prior to updating the vendor record.

Observation 4

Some user roles allowed access which created a segregation of duties risk.

Two employees had the ability to both enter and approve a vendor. As a mitigating control, the Accounting Manager performed reviews of vendor changes several times yearly. When planned system changes are made, City Finance expects to be able to better segregate these duties.

A process was in place to inactivate access of terminated employees. Other than the termination process, no formal periodic reviews of user access were performed to identify potential segregation of duties concerns and confirm access with management. A similar recommendation was included in Report 13-15, City Procurement.

Clearly segregating duties according to business need and user role reduces the risk of improper payments.

Management Response

City Finance: Management partially agrees with this recommendation and accepts the risks involved with access as it stands for the short term. The vendor workflow implementation scheduled for 2017 will remove the ability of the Central Finance Manager to approve vendors that she has updated. In the meantime, it is department practice that the Finance Manager not enter vendors. Reports can be run to verify that this does not happen. We will begin quarterly reviews of user access roles.

Recommendation

City Finance should perform regular system access reviews to ensure profiles are correct and approved by management.

When planned system changes are made, City Finance should separate user roles to limit access so that vendor changes cannot be submitted and approved by the same person.

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Observation 5

An Information Technology related issue was observed during our audit. This issue could be addressed with changes in business procedures or by increasing reviews in place.

We are not including details concerning any potential vulnerabilities (or strengths) related to the security of these City of Colorado Springs facilities/functions. Disclosure of this information to the public would be contrary to the public interest in improving or maintaining secure information technology systems for the City of Colorado Springs. The details of this audit are not required to be released to the public per C.R.S. § 24.

Management Response

City Finance: Management agrees with the recommendation.

Department of Information Technology: Management agrees with the recommendation.

Recommendation

City Finance and the Department of Information Technology should review the Information Technology related issue and identify a solution.

Opportunity for Improvement 1

The Accounts Payable system provided a warning when a user attempted to process a payment with a vendor ID and invoice number that already existed in the system.

The system allowed the invoice to be paid without additional approvals. Reports of potential duplicate payments were not currently in place for review.

Literature indicates duplicate payments are common. Risk was somewhat mitigated by the fact that funds would need to be available on the purchase order or contract to process payment, as well as the general controls environment.

Management Response

City Finance: Management agrees that there is an opportunity for improvement and will investigate options as part of the proposed upgrade.

Recommendation

City Finance should consider implementing a systemic control that prevents processing of payments with the same vendor and invoice number combination. If this is not feasible, other mitigating controls could be considered, such as exception reports or approvals prior to payment.