



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

11-24 Colorado Springs Utilities Purchasing Card Audit

December 2011



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

11-24 Colorado Springs Utilities Purchasing Card Audit

December 2011

Purpose

The purpose of our audit was to evaluate the effectiveness of internal controls related to the Colorado Springs Utilities' Purchasing Card (P-Card) program, and to determine compliance with governing policies and procedures.

Highlights

Management had established appropriate policies and procedures as internal controls. In many areas, the controls were functioning as intended. However, for the period of the audit, internal controls related to P-Cards were not adequate in some areas we reviewed. Colorado Springs Utilities implemented several improvements to P-Card controls prior to the start of our fieldwork and was in the process of working on some other program enhancements at the completion of our fieldwork. Our audit covered the period January 1, 2009 through June 30, 2010. For the transactions we tested, we noted error rates that were not significant. The process changes recently put in place by Colorado Springs Utilities along with the proposed control improvements should improve the control environment for P-Cards.

While Colorado Springs Utilities Accounts Payable Department was responsible for administering the P-Card program, user department supervisors were responsible for ensuring employee compliance with relevant policies. Per policy, supervisors were required to complete detailed reviews of cardholder monthly reconciliations. This review process was a key control of the P-Card program.

With the decentralized review process, there was opportunity for inconsistencies in how policies were enforced. The strength of the supervisor review as a control varied depending on the level of scrutiny given to the P-Card transactions as well as the supervisor's knowledge of relevant policies. We believe a central audit process would improve compliance with policies by adding consistency across the organization. In addition, the possibility of being audited normally increases the compliance commitment of employees and approving supervisors.

Management Response

Management was generally in agreement with our audit comments. The complete responses can be found in the body of the detailed report.

Recommendations

1. Colorado Springs Utilities should implement a centralized audit process to independently verify compliance with P-Card policies. The review process should include periodic testing of a sample of cardholder reconciliations across the organization.
2. Colorado Springs Utilities should consider defining and implementing a formal process for error tracking and remediation related to non-compliance with P-Card policies and procedures.

**City Council's
Office of the City Auditor
City Hall
107 North Nevada Ave.
Suite 200
Mail Code 1542
Colorado Springs CO
80901-1575
Tel 719-385-5991
Fax 719-385-5699
Reporting Hotline
719-385-2387**



OFFICE OF THE CITY AUDITOR PUBLIC REPORT

Date: December 21, 2011

To: President Hente, President Pro Tem Martin, and Members of City Council

Re: 11-24 – Colorado Springs Utilities Purchasing Card Audit

We conducted an audit of Colorado Springs Utilities Purchasing Card (P-Card) program. The purpose of this audit was to evaluate the adequacy of the control environment as it relates to P-Card transactions, and to determine that disbursements were being made in accordance with governing policies and procedures. The audit covered the period January 1, 2009 through June 30, 2010.

Management had established appropriate policies and procedures as internal controls. In many areas, the controls were functioning as intended. However, for the period of the audit, internal controls related to P-Cards were not adequate in some areas we reviewed. Colorado Springs Utilities implemented several improvements to P-Card controls prior to the start of our fieldwork and was in the process of working on some other program enhancements at the completion of our fieldwork. For the transactions we tested, we noted error rates that were not significant.

We believe process changes put in place by Colorado Springs Utilities prior to the completion of our fieldwork, along with other control improvements proposed by management, should significantly improve the control environment for all P-Cards. We also identified areas where internal controls could be further strengthened. These areas are detailed in the attached report.

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

Sincerely,

Denny Nester, MBA, CPA, CIA, CGFM, CFE, CGAP
City Auditor

Cc: Jerry Forte, Chief Executive Officer
Bill Cherrier, Chief Financial Officer
Dede Jones, General Manager, Financial Services
Sonya Thieme, Manager, Accounting
Gretchen Peters, Supervisor, Accounting
Eli Novakovich, Manager, Procurement and Contract Services
Dave Maier, Manager, Enterprise Risk Management
Debbie Griffin, Lead Analyst, Enterprise Risk Management
Patricia Van Meter, Sr. Analyst, Enterprise Risk Management



OFFICE OF THE CITY AUDITOR PUBLIC REPORT

Report Details	1
Purpose and Scope	1
Background	1
Conclusion	2
Observations, Recommendations and Responses.....	3
Observation 1 – Colorado Springs Utilities did not have a central audit function for sampling compliance with P-Card policies	3
Observation 2 – There was no formal process for error tracking and remediation related to P-Card policy violations	5

Colorado Springs Utilities Purchasing Card Audit

Office of the City Auditor

REPORT DETAILS

PURPOSE AND SCOPE

We performed an audit of Colorado Springs Utilities Purchasing Card (P-Card) program. The purpose of this audit was to evaluate the adequacy of the control environment as it relates to P-Card transactions, and to determine that disbursements were being made in accordance with governing policies and procedures. Our audit covered the period January 1, 2009 through June 30, 2010.

BACKGROUND

The Colorado Springs Utilities P-Card program has been in place since 1996. Colorado Springs Utilities participates in a P-Card consortium rebate program under the City of Colorado Springs to combine purchasing volume. By combining purchasing volume, Colorado Springs Utilities received a rebate of approximately \$262,000 for 2009 P-Card purchases. The card has no annual fee and provides automatic liability insurance for fraud through Visa. During the audit period, Colorado Springs Utilities utilized P-Cards to complete approximately 63,000 purchases totaling over \$31 million. At June 30, 2010, there were 805 cardholders.

The Accounts Payable Department was responsible for administering the P-Card program. All employees were required to complete computer-based training on P-Card policies and procedures prior to card issuance. In addition, employees were required to obtain supervisor approval for issuance of a P-Card and sign an agreement that they would comply with all relevant policies and procedures. The Accounts Payable Department verified these requirements were satisfied before issuing a new card.

According to Colorado Springs Utilities P-Card procedures, monthly statements were sent to cardholders, who were responsible to attach receipts to the statements, reconcile all charges, and obtain supervisor approval on the paper copy of the reconciliation. The reconciled file was then retained in the user department. With this decentralized process, department supervisors were responsible for ensuring employee compliance with P-Card policies during their detailed reviews.

In 2010, Colorado Springs Utilities identified an employee who had stolen approximately \$30,000 using a P-Card. While policy required a supervisor to approve the employee's charges, the system used to monitor the P-Card allowed the employee to approve her own P-Card charges and her supervisor was not aware that inappropriate charges had been made. Once the misuse was identified, the employee resigned and was prosecuted. According to a plea agreement with the District Attorney dated August 22, 2011, the former employee is required to pay restitution totaling \$33,794.72 and is serving a deferred sentence of four (4) years, served concurrently with four (4) years of probation. As a result of the employee fraud, Colorado Springs Utilities put a team together to develop ways of improving controls over P-Cards and enhancing the overall program. We noted throughout the course of our audit that various control improvements were underway as a result of this effort. In addition, several enhancements were implemented prior to completion of our fieldwork.

Colorado Springs Utilities Purchasing Card Audit

Office of the City Auditor

Some of the improvements implemented include:

- Automatic emails to supervisors as notification an employee had P-Card transactions for the month that needed approval.
- Procedures to notify supervisors and managers prior to the reconciliation deadline when cardholder reconciliations had not been completed or approved.
- Restrictions put in place to prevent a cardholder from approving his or her own reconciliation in the system.

It should be noted that while the above mentioned improvements were made before completion of our fieldwork, these controls were not in effect during the audit period. We acknowledge the efforts made by Colorado Springs Utilities to improve P-Card processes and controls as well as the prompt action to address the control weaknesses that allowed the employee fraud to go undetected initially.

CONCLUSION

Management had established appropriate policies and procedures as internal controls. In many areas, the controls were functioning as intended. However, for the period of the audit, internal controls related to P-Cards were not adequate in some areas we reviewed. Colorado Springs Utilities implemented several improvements to P-Card controls prior to the start of our fieldwork and was in the process of working on some other program enhancements at the completion of our fieldwork. For the transactions we tested, we noted error rates that were not significant. The process changes recently put in place by Colorado Springs Utilities along with the proposed control improvements should improve the control environment for P-Cards.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

OBSERVATION 1 – COLORADO SPRINGS UTILITIES DID NOT HAVE A CENTRAL AUDIT FUNCTION FOR SAMPLING COMPLIANCE WITH P-CARD POLICIES

User department supervisors were responsible for ensuring compliance with P-Card policies and procedures. These supervisors were responsible for performing detailed reviews to verify cardholder monthly statements were reconciled, all receipts were provided, and purchases complied with governing policies. The strength of the supervisor review as a control varied depending on the level of scrutiny given to the P-Card transactions as well as the supervisor’s knowledge of relevant policies. With a number of supervisors across the organization performing this review, there was opportunity for inconsistencies in how policies were enforced.

Colorado Springs Utilities did not have a central audit function in place to review a sample of cardholder reconciliations for compliance with P-Card policies. Such a review process is a critical internal control to minimize misuse of P-Cards. Even the possibility of being audited normally increases compliance levels. In addition, a central audit function improves consistency in how policies are enforced by the various user groups.

During our review of a sample of cardholder reconciliations, we noted some instances of non-fraud, procedural errors. We believe our recommendations below will address these types of errors.

AUDITOR’S RECOMMENDATION

We recommend implementing a centralized audit process to independently verify compliance with P-Card policies. This process should include the following:

- A. Periodic reviews of a sample of cardholder reconciliations to verify receipts are provided for all transactions, appropriate supervisor approvals are obtained, and purchases comply with established policies.
- B. Tracking and reporting of errors identified during the audit process to user department and senior management.

In conjunction with this audit process, Colorado Springs Utilities should also consider using an automated tool to assist with the identification of policy violations. This type of tool could be used to identify potential duplicate transactions, charges to cards of terminated employees, transactions with unusual vendors, or splitting of purchases to avoid transaction limits. These tests would further strengthen oversight of the P-Card program.

We noted Colorado Springs Utilities Enterprise Risk Management Unit was working on a continuous monitoring program which would include periodic reviews of a sample of cardholder reconciliations across the organization. As of the completion of our fieldwork, Enterprise Risk Management was waiting for approval to implement this program.

Colorado Springs Utilities Purchasing Card Audit

Office of the City Auditor

COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities agrees with this recommendation and will identify and implement a process to randomly sample P-Card reconciliations, review for Policy compliance, track Policy violations and report those violations through the chain of command up to senior management.

The feasibility of utilizing an automated tool as recommended has been considered. The current P-Card process involves three information technology systems: the bank owned system, the Maximo system (RMS) and the Lawson system (FHAS). A manual process is utilized to upload all P-Card transactions into RMS from a flat file provided by the bank. Customized integration transfers this data from RMS to FHAS. De-provisioning processes exist to remove terminated employees and acquire company property they may possess.

An automated tool would require resources to develop the tool, customize integration and implement, plus all associated costs of ownership thereafter. In order to identify potential duplicate transactions and charges to cards held by terminated employees would require additional customization of the bank owned system, RMS and FHAS. Utilizing an automated tool to identify unusual vendors or splitting of purchases to avoid transaction limits would require complex system logic in RMS and FHAS. In addition, valid business reasons may exist to utilize unusual vendors or observe purchases in the same amount with the same vendor that are not split invoices. Implementing this recommendation currently is not feasible with the current resource limitations and system complexities. However, Colorado Springs Utilities recognizes that other software tools such as ACL may be available and could possibly be used as an alternative to provide some "policy violation" detection. Colorado Springs Utilities is willing to explore the possibilities of using this type of software; however, there is no guarantee that it will serve the desired purpose or that the cost / benefit trade-off would be justified. Expected completion date for this evaluation and any potential system implementation is December 31, 2012.

Colorado Springs Utilities Purchasing Card Audit

Office of the City Auditor

OBSERVATION 2 – THERE WAS NO FORMAL PROCESS FOR ERROR TRACKING AND REMEDIATION RELATED TO P-CARD POLICY VIOLATIONS

The P-Card policy indicated corrective action could be taken if the cardholder did not comply with policies and procedures; however, there was no formal process in place for error tracking and remediation related to P-Card policy violations. While the Colorado Springs Utilities Human Resources Policy governed disciplinary actions for the organization as a whole, specific corrective actions for non-compliance with P-Card policies and procedures were left to the discretion of department supervisors. Without a formal process in place to track and enforce P-Card policies through corrective action, increased errors could occur.

AUDITOR'S RECOMMENDATION

Colorado Springs Utilities should consider defining and implementing a formal process for error tracking and remediation to address non-compliance with P-Card policies and procedures. As we noted in our recommendation for Observation 1 of this report, errors identified during centralized audit efforts should be tracked and reported to user department and senior management. Any new processes or reports should be included in training for supervisors.

COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities agrees with this recommendation however, recognizes the challenge and limitations of capturing all potential P-Card Policy violations and the associated disciplinary actions to be codified in a comprehensive manner within Policy. Colorado Springs Utilities will continue to evaluate effective disciplinary action consistent with the Corrective Action program that can be appropriately applied capturing the severity level of failure to comply with P-Card Policy. The implementation of formal corrective action could range from revoking P-Card rights up to and including discharge.

As a first step, as previously stated in Response #1, Colorado Springs Utilities will begin tracking infractions that are identified in the continuous audit process. The audit process will consist of limited, randomly selected P-Card reconciliations that will be reviewed for Policy compliance on an ongoing basis. Errors detected will be captured and reported to the user department and senior management for appropriate corrective action. Colorado Springs Utilities anticipates the continuous audit tests to be in place by the fourth quarter, 2011.

Additionally, Colorado Springs Utilities will pursue the development of guidelines for supervisors and managers that will identify certain violations that may require corrective action. These will include: the failure to reconcile and/or approve monthly reconciliations; repeat personal P-Card usage; and chronic missing receipts. It must be emphasized that the actual corrective action will remain at the individual supervisor and manager levels. Notwithstanding, with additional guidelines and ongoing education and communications, Colorado Springs Utilities expects to achieve greater consistency throughout the organization. This topic will be emphasized at the Human Resources Compliance forum in the first quarter, 2012. Expected completion date is March 31, 2012.

CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

COLORADO SPRINGS, COLORADO

About our Office

The mission of the Office of the City Auditor is to provide City Council with an independent, objective and comprehensive auditing program for operations of the City. Our auditing program includes:

- Evaluating the adequacy of financial controls, records and operations
- Evaluating the effectiveness and efficiency of organizational operations
- Providing Council, management and employees objective analysis, appraisals, and recommendations for improving systems and activities

The Office of the City Auditor is responsible for auditing the systems used by the City of Colorado Springs and its enterprises, including Colorado Springs Utilities, Memorial Health System, and Colorado Springs Airport. We perform a variety of audits for these entities, including financial audits, performance audits, contract audits, construction audits, and information system audits. We also perform follow-up on a periodic basis to monitor and ensure management actions have been effectively implemented.

Authorization and Organizational Placement

Our audits are conducted under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706 of the Code. 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.

Audit Standards

This 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.