



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

12-07
Colorado Springs Utilities
Disbursements Audit

May 2012



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Purpose

The purpose of this audit was to determine compliance with policies and procedures. We also evaluated the adequacy of the internal control environment related to the accurate processing of Colorado Springs Utilities disbursements while adequately safeguarding resources.

Highlights

We conclude that overall, the disbursements process operated in compliance with governing policies and procedures. The internal control structure was adequate in all material respects. We noted low error rates in our testing and observed policies and procedures in place that supported a strong control environment. During our work, we observed processes that appeared to be efficient.

Our audit period was the first six months of 2011. Between January 1 and June 30, 2011, Colorado Springs Utilities' Accounts Payable section processed 25,053 invoices totaling nearly \$377 million. The City Auditor's last disbursements audit report was issued January 13, 2006 and covered the six months ended June 30, 2005.

To accomplish our audit objectives, we reviewed policies and procedures to obtain an understanding of the internal control structure for the disbursements operations and recording of payments. We interviewed management and staff. We observed daily operations to identify the systems used and procedures in place for proper initiation, approval, payment and recordkeeping of transactions. We reviewed user access, journal entries, and bank reconciliations. We tested a sample of transactions to determine whether policies and procedures were being followed.

Management Response

As no recommendations were included in the report, no responses from Colorado Springs Utilities were requested.

Recommendations

We did not identify any recommendations for improvement in the disbursements process.

We noted that Colorado Springs Utilities' management has increased segregation of duties over disbursements since our prior audit.

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OFFICE OF THE CITY AUDITOR PUBLIC REPORT

Date: May 2, 2012

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

Re: 12-07 Colorado Springs Utilities Disbursements Audit

We conducted an audit of Colorado Springs Utilities disbursements as part of our regular cycle reviews. Our audit focused on the period from January 1, 2011 through June 30, 2011.

The purpose of this audit was to determine compliance with policies and procedures and to evaluate the adequacy of the internal control environment related to Colorado Springs Utilities disbursements. We obtained an understanding of the internal control structure for Colorado Springs Utilities disbursements operations and tested transactions for compliance with policies and procedures. We noted low error rates in our testing and observed policies and procedures in place that supported a strong control environment.

We concluded overall that Colorado Springs Utilities disbursements processes were in compliance with governing policies and procedures. These processes adequately safeguarded resources. We also conclude the processes were functioning as intended. During our field work, we observed processes that appeared to be efficient.

We would like to thank Colorado Springs Utilities Accounting Department for their cooperation and assistance during this audit.

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, Colorado Springs Utilities Chief Executive Officer
Bill Cherrier, Chief Planning and Financial Officer
Dede Jones, General Manager, Financial Services
Sonya Thieme, Manager, General Accounting
Gretchen Peters, Supervisor, Accounting
Dave Maier, Manager, Enterprise Risk Management
Patricia Van Meter, Senior Analyst, Internal Review



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REPORT DETAILS

PURPOSE

We performed an audit of Colorado Springs Utilities disbursements functions. The purpose of this audit was to determine compliance with policies and procedures and to evaluate the adequacy of the internal control environment related to processing of Colorado Springs Utilities disbursements while adequately safeguarding resources.

SCOPE & METHODOLOGY

The scope of the audit included review of check and electronic payment processes, as well as, proper segregation of duties. The audit period included payments recorded in the first six months of 2011. During that period, Colorado Springs Utilities Accounts Payable Department processed 25,053 invoices totaling nearly \$377 million.

Our methodology included an examination of Colorado Springs Utilities accounting records and activities. To accomplish our audit objectives, we reviewed policies and procedures in order to obtain an understanding of the internal control structure for the disbursements operations and recording of payments. We interviewed management as well as staff and observed daily operations to identify the systems used and procedures in place for proper initiation, approval, payment and recordkeeping of transactions. We reviewed user access to the accounts payable system, journal entries and bank reconciliations as they related to the disbursements cycle. We conducted testing of a sample of transactions to determine whether policies and procedures were being followed. Additionally, we determined that controls were in place to ensure these transactions were recorded accurately and timely, and that system access was restricted to authorized employees.

BACKGROUND

The purpose of this audit is to evaluate the internal controls used to ensure reliability of financial information. The last audit in this area was issued January 13, 2006 and covered the six months ended June 30, 2005. Additional testing was performed on disbursements in 2006 as part of a monitoring program. As part of this audit, we performed additional follow-up on the previous findings to determine if management actions were effectively implemented.

Colorado Springs Utilities Disbursements Audit

COMMENDABLE PRACTICES

We noted several improvements made by Accounts Payable since the last audit performed in this area. Improvements included the following:

- User access was more restricted and provided increased segregation of duties.
- Accounts Payable policies and procedures were updated to include all critical processes in the disbursements cycle.
- Access to key procedures was restricted to essential personnel.

We commend the efforts made by Colorado Springs Utilities to improve processes and controls.

CONCLUSION

We conclude that overall, the disbursements process was operating in compliance with governing policies and procedures. The internal control structure was adequate in all material respects. Policies and procedures were in place that supported a strong control environment. We noted compliance with these policies and procedures during our review. For the sample of transactions we reviewed, we noted error rates that were not significant. During our work, we observed processes that appeared to be efficient.

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 and Memorial Health System. 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

The audit was conducted in a manner that meets or exceeds the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors, with the exception of the requirements under standards 1312 and 1321 to obtain an external quality assurance review once every five years. We do not believe this non-compliance impacted the quality of our audit.

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.