



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

12-08
City of Colorado Springs
Cash Disbursement Audit

May 2012



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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12-08 City Cash Disbursements

May 2012

Purpose

The purpose of this audit was to evaluate the adequacy of the internal control environment related to cash disbursements and to determine that disbursements were being made in accordance with the governing policies and procedures while adequately safeguarding City resources.

Highlights

We conclude that the accounts payable system had adequate internal controls in place. We also conclude reasonable assurance exists that City resources were appropriately safeguarded.

Our audit period included payments recorded in the first six months of 2011. During this period, the City Accounts Payable Department processed 10,033 check payments valued at approximately \$81.4 million and 460 ACH payments with a value of approximately \$7.5 million.

The focus of our audit was to evaluate whether the City was remitting payments for goods and services in accordance with policy and good business practices while adequately safeguarding resources.

We also performed transaction testing on a limited basis. The items we noted were related to procedures and system user access. We believe our recommendations will improve processes over the City's disbursement processes.

Management Response

The City was in general agreement with all observations. See specific observations for details.

Recommendations

1. City Code should be reviewed and updated to include language that allows certain limited designees of the City Mayor and the Chief Financial Officer the authority to sign checks on the City's behalf.
2. A form or other communication method should be created to identify and track required financial system user access requests.
3. City Administration should continue to communicate the importance of timely invoice submission to the organization.



OFFICE OF THE CITY AUDITOR PUBLIC REPORT

Date: May 2, 2012

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

Re: 12-08 City Cash Disbursements

We conducted an audit of the City of Colorado Springs Cash Disbursement functions, as part of our financial system cycle reviews. Our audit focused on the period from January 1, 2011 through June 30, 2011.

The purpose of this audit was to evaluate the adequacy of the internal control environment related to City cash disbursements and to determine compliance with policies and procedures. The cash disbursement system was primarily centralized; however some payments were made by an individual department such as Municipal Courts. To accomplish our audit objectives, we reviewed departmental policies and procedures and conducted interviews with management. The audit included obtaining an understanding of the internal control structure for each department's disbursement operations and recording of payments as well as limited testing of each group's transactions to determine whether policies and procedures were being followed.

We observed that some disbursement locations had stronger internal controls and segregation of duties in place than others, as the small staff at some locations made it difficult to separate duties. Locations tested which processed significant dollars in disbursements had adequate internal controls in place. Accordingly, we concluded overall, that reasonable assurance exists that City resources were appropriately safeguarded.

During the course of our audit, we identified areas where processes could be improved. We have listed our recommendations for each in the attached report. City Management has been provided the details on the issues. Their responses are included on the pages that follow.

We would like to thank the staff from each department for their time and help in completing 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: Mayor Steve Bach
Laura Neumann Chief of Staff
Steve Hilfers, Interim Finance Director
Candice Bridgers, Controller
Patti McFarland, Accounts Payable Supervisor

City Disbursement Audit
Office of the City Auditor
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REPORT DETAILS

PURPOSE

We performed an audit of the City's cash disbursement functions, including departments that made payments to the public. The purpose of this audit was to evaluate the adequacy of the internal control environment related to cash disbursements and determine that City resources were adequately safeguarded. We also evaluated whether payments were being processed accurately while adequately safeguarding City resources.

SCOPE

The scope of the audit included reviewing the processes used in processing and remitting of payments by cash, check, and credit card as well as proper segregation of duties. The audit period included payments recorded in the first six months of 2011. During this period, the City's Accounts Payable Department processed 10,033 check payments valued at approximately \$81.4 million and 460 Automated Clearing House (ACH) payments with a value of approximately \$7.5 million.

Our methodology included an examination of various departments' records and activities. To accomplish our audit objectives, we reviewed applicable policies and procedures in order to obtain an understanding of the internal control structure for each department's cash disbursement operations and recording of payments.

We performed a risk assessment to determine which areas to test. Our selections included locations with access to City funds through the banking system. Based on our selections, we conducted site visits at six departments that had cash disbursement and processing responsibilities.

We interviewed management and staff. We observed daily operations to identify the systems used along with procedures in place for proper initiation, approval, payment, and recordkeeping of transactions. We also reviewed user access to the accounts payable system, journal entries and bank reconciliations as they related to the cash disbursements cycle. We tested a sample of transactions to determine whether the departments were following policies and procedures.

BACKGROUND

The City's cash disbursement activities were primarily centralized through the accounts payable system. However, wire payment transactions were performed by City Finance through the use of the online banking system and subsequently recorded in the accounting system. Also, certain customer refunds and small court cost payments were performed outside of the accounts payable system through the use of petty cash (or imprest) checking accounts. City staff at four locations processed these payments in their department manually using the imprest checking accounts and submitted documentation for

reimbursement through the accounts payable system. Bank statement reconciliations were performed by each of the four departments and submitted to the City Finance Department for review and approval.

During the audit, we noted the City disbursed payments for Regional Building under a service level agreement. Per this agreement, the City also reported Internal Revenue Service (IRS) Form 1099 information to the Federal Government and used the City's tax identification number.

The service level agreement with Regional Building, allowed them the option of following procurement policies of either the City of Colorado Springs or El Paso County. This option had caused the City Accounts Payable Department to expend additional resources to ensure that City procurement policies regarding the purchase of small goods and services were made appropriately to non IRS defined 1099 vendors. If the City was going to continue providing these services, we would recommend that Regional Building comply with the City's procurement policies. However, at the time of this report, the City is no longer providing services to Regional Building in this area.

CONCLUSION

The cash disbursement process at the City was primarily centralized within the accounts payable system with processes in place to verify payment accuracy during our audit period. At non-centralized locations that processed payments manually, we observed some had stronger internal controls and segregation of duties in place than others. This situation appeared to result from the small number of staff at some non-centralized locations, which made it difficult to separate duties, resulting in some level of risk that payments would not be accurate.

The accounts payable system that processed significant dollars in payments had adequate internal controls in place. Overall, we conclude reasonable assurance exists that City resources were appropriately safeguarded.

The items we noted were related to procedures and system user access. City Management has been provided the details on the issues and will be working to address the items.

The observations are detailed on the pages that follow.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

OBSERVATION 1 – IMPREST CHECKING ACCOUNTS WERE NOT IN COMPLIANCE WITH CITY CODE

City Code, states that the Mayor and the Chief Financial Officer shall sign all checks drawn upon accounts of the City. Currently all payments processed on the main checking account are signed by the Mayor and Chief Financial Officer, however the smaller imprest checking accounts are signed by individuals in the respective departments.

Based on interviews with the users of the imprest checking accounts, these accounts were created to allow for specific day-to-day operations. The Municipal Court along with Parks and Recreation used these accounts to more efficiently process customer refunds. The City Attorney used their account to make payments for small court costs (copy fees and pay witness mileage) as needed. This process helped to alleviate the need for one-time vendors to be created in the accounts payable system. The imprest checking accounts ranged from \$1,000 to \$4,000, depending on the department and totaled \$11,500.

Also, it should be noted that the City maintained a checking account for health care benefits costs that is signed by a third party administrator and not the Mayor or the Chief Financial Officer. This health care benefits checking accounts was not reviewed in this audit.

The use of a checking account in place of cash for these day-to-day operational tasks improved the safeguards surrounding the funds and provided a more reliable tracking method for transactions. Checks were manually created and signed by authorized personnel in each department. Changes to personnel authorized to sign these checks was approved by the City Controller prior to submittal to the bank for processing. The City Controller also approved creating City checking accounts.

AUDITOR'S RECOMMENDATION

We recommend City Code be reviewed and updated to include language that allows certain limited designees of the City Mayor and the Chief Financial Officer the authority to sign checks on the City's behalf. Prior to granting this authority, the existing imprest checking accounts should be reviewed to determine if the City should continue to maintain these accounts; possibly identifying other means of performing the day-to-day duties involving the disbursement transactions if the accounts are closed.

CITY MANAGEMENT'S RESPONSE

We agree with the recommendation. All imprest accounts have been reviewed and determined to be necessary to business operations. We will begin working with the City Attorney's office immediately to address the City Code concerns.

OBSERVATION 2 –FINANCIAL SYSTEM USER ACCESS WAS NOT UPDATED

Access to the financial system was not updated to reflect changes in employment or job responsibilities. It was noted that three prior employees still had user access in the financial system and one employee that had a change in job responsibilities still had access to old job responsibilities.

There was no documented method to initiate requests for financial system user access changes when job responsibilities change. There was no documented method to ensure that an out-going employee's access was inactivated after notification by Payroll.

Based on discussion of this observation, Finance created a form that will be used to request and document changes to the financial system's user access. On a one-time basis, this form was sent to all current financial system users to reconfirm the access required for their current job responsibilities and will be provided to Human Resources for inclusion in future new hire and termination packets.

AUDITOR'S RECOMMENDATION

We recommend that a form or other communication method be created to identify and track required financial system user access requests. This form or communication method would be completed by the supervisor requesting the changes and would be used as support to activate, change or inactivate access. It would also provide adequate support for user access changes made in the financial system and ensure that changes were made in a timely manner.

CITY MANAGEMENT'S RESPONSE

We agree with the recommendation. A process was created in 2011 that required a user authorization form to be approved by the user's supervisor in order to access the financial system. Updated authorization forms will be required annually.

OBSERVATION 3 – INVOICES WERE NOT SUBMITTED IN A TIMELY MANNER

Typically, invoices for services received were sent to the department that requested the services. After the department's approval process was completed, those invoices were sent to Accounts Payable for payment processing. Of the 30 invoices tested, 10 (approximately 33%) were submitted to Accounts Payable more than five business days after the approval or invoice date. Of those 10 invoices that were not submitted in a timely manner, approximately 30% (or 3) were submitted more than 30 days after the invoice date. None of the invoices tested created any issues; however the potential for additional staff resources, duplicate payments or additional charges still existed.

AUDITOR'S RECOMMENDATION

We recommend City Administration continue to communicate the importance of timely invoice submission to the organization. If possible, Accounts Payable should identify departments that consistently submit late invoices and work with management to develop processes that will ensure invoices are submitted in a timely manner for payment.

CITY MANAGEMENT'S RESPONSE

We agree with the recommendation. Accounts Payable has already begun monitoring the invoices and the supervisor will contact departments that submit late invoices.

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 will be planned 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 will include interviews with appropriate personnel and such tests of records and other supporting documentation as deemed necessary in the circumstances. We will review the internal control structure and compliance tests. Sufficient competent evidential matter was gathered to support our conclusions.