



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

12-20 City Payroll Full System Review

November 2012



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Purpose

The purpose of this audit was to perform a review of payroll activities to ensure an adequate internal control environment, accurate and timely payments to employees, and compliance with policies and procedures in key areas. The scope of our review did not include pension deductions or contributions.

Highlights

We concluded that overall, the internal control structure was adequate, transactions were being processed effectively and efficiently, and the key policies and procedures were being followed.

The audit covered the fourteen months from January 1, 2011, to February 29, 2012, and centered on the payroll function and the system which was used to make payments to employees.

The audit was conducted using an integrated approach and included an evaluation of the Information Technology control environment.

The Fire Department converted to the Time and Labor module utilized to enter employee time effective in July 2011. As such, we did not review policies and procedures in the Fire Department prior to that date, although we included the first half of 2011 in our data analysis.

(Continued on page 2)

Management Response

Management was generally in agreement with our recommendations. See detailed responses in the report.

Recommendations

1. Management should develop a process to ensure access levels are appropriate for an employee's job responsibilities and to periodically review such access for continued appropriateness.

Management should create a process to monitor those employees who have administrator level access to the Payroll/HR system.

Management should restrict the privilege of editing the queries supporting the key reports to authorized personnel only.

2. Management should implement a process to periodically review the accuracy of the queries supporting the key reports to ensure they are configured as originally intended.

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(Highlights continued from page 1)

The City payroll function was centralized and responsible for processing all employees' pay every two weeks, including both sworn and non-sworn personnel. Sworn personnel were covered under a different policy and procedure manual and participated in separate retirement plans.

Each employee was responsible for entering his/her own time electronically into the Time and Labor System. Managers and supervisors then approved the entered time. Payroll personnel conducted several data verification steps on the approved time in processing the payroll.

Opportunity for Improvement

1. We recommend that the Police Department continue to work toward a solution that would provide management reporting of pay patterns for use in staffing and scheduling.

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Office of the City Auditor Public Report

Date: November 14, 2012

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

Re: 12-20 City Payroll Full System Review

We conducted an audit of the City of Colorado Springs (City) payroll function covering the fourteen months from January 1, 2011, to February 29, 2012.

The purpose of this audit was to perform a full review of payroll activities to ensure an adequate internal control environment. We also reviewed whether there were accurate and timely payments to employees. We reviewed compliance with policies and procedures in key areas of the process. The audit centered on the payroll function and the Financial System, which is used to make payments to employees. The audit was conducted using an integrated approach and included an evaluation of the Information Technology control environment. The scope of our review did not include pension deductions or contributions.

The Fire Department converted to Time and Labor module effective in July 2011. As such, we did not review policies and procedures in the Fire Department prior to that date, although we included the first half of 2011 in our audit.

We concluded that overall, the internal control structure was adequate, transactions were being processed effectively and efficiently, and the key policies and procedures were being followed. During the course of the audit we identified two observations as well as one opportunity for improvement. We have included our recommendations related to each in the attached report.

We would like to thank the staff from each department for their time and assistance in completing this audit.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Denny Nester".

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

Cc: Steve Bach, Mayor
Laura Neumann, Chief of Staff
Michael Sullivan, Human Resources Director
Kara Skinner, Chief Financial Officer
Jesse James, Interim Chief Information Officer
Kimberly Bingman, Payroll Supervisor



Office of the City Auditor

City Payroll Full System Review

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REPORT DETAILS

PURPOSE AND SCOPE

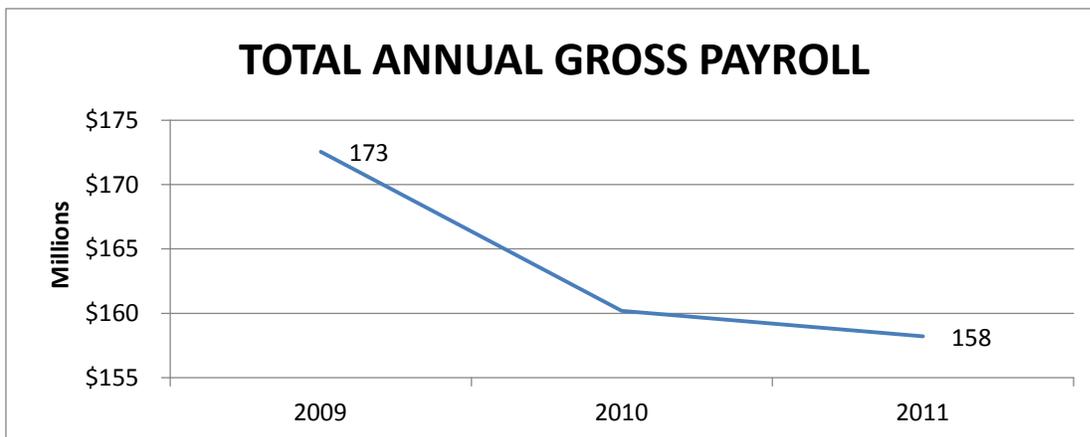
The purpose of this audit was to perform a review of payroll activities to ensure an adequate internal control environment, accurate and timely payments to employees, and compliance with policies and procedures in key areas. The audit covered the fourteen months from January 1, 2011, to February 29, 2012, and it centered on the payroll function and the Financial System used to make payments to employees. The audit was conducted using an integrated approach and included an evaluation of the Information Technology control environment. The scope of our review did not include pension deductions or contributions.

The Fire Department converted to Time and Labor module effective in July 2011. As such, we did not review policies and procedures in the Fire Department prior to this date, although we included the first half of 2011 in our data analysis.

BACKGROUND

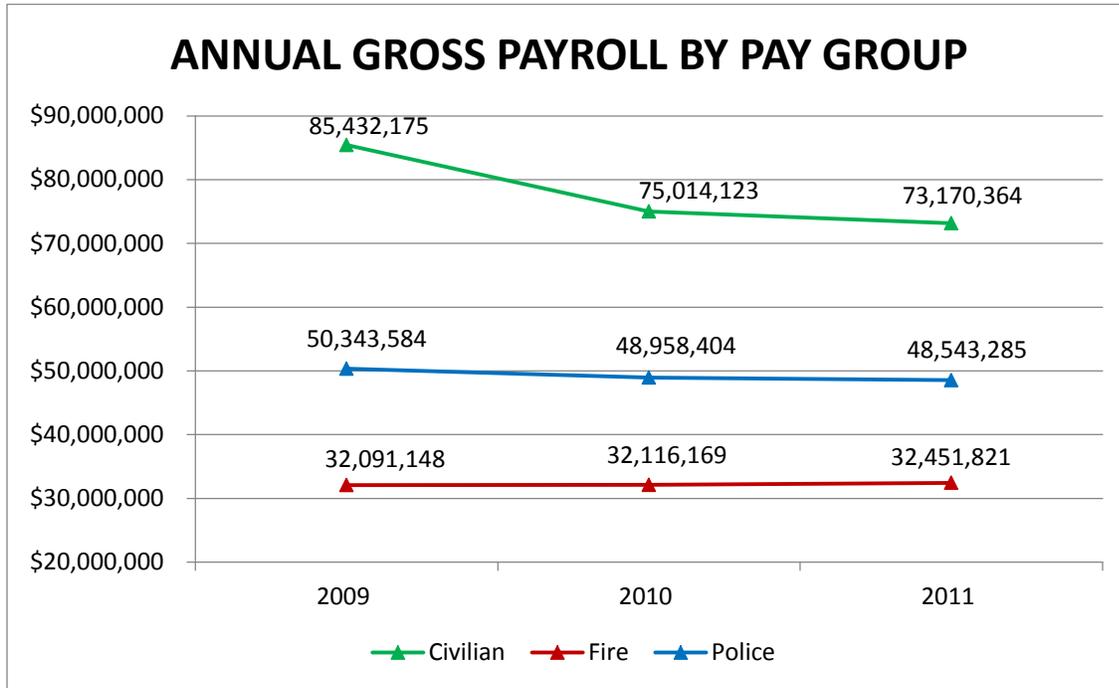
The City payroll function was centralized and responsible for processing all employees' pay every two weeks, including both sworn and non-sworn personnel. Sworn personnel were covered under a different policy and procedure manual and participated in separate retirement plans. Each employee was responsible for entering his/her own time electronically into the Time and Labor System. Managers and supervisors then approved the entered time. Payroll personnel conducted several data verification steps on the approved time in processing the payroll.

Salary and benefits comprised the largest expenditure in the City's general fund. In 2011, the General Fund budget was \$223.2 million with a Salaries and Benefit cost of \$155.4 million or 70% of the City's total General Fund Budget. Data was gathered and analyzed to gain a general understanding of trends. The City's actual gross payroll has decreased since 2009. Please see below.

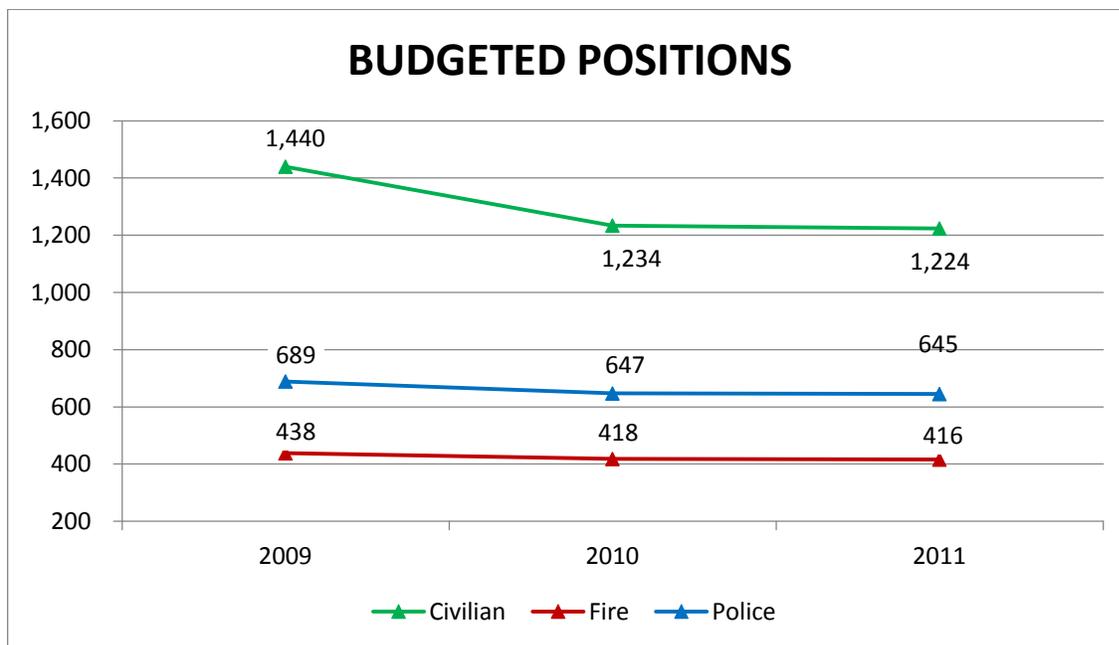




When classified by employee groups, Civilian, Police and Fire are the largest groups. The graph below indicates that Civilian pay has decreased while Fire pay and Police pay have remained relatively stable.



Budgeted Civilian FTEs have decreased dramatically since 2009, while Fire and Police have decreased by a lesser amount.





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COMMENDABLE PRACTICES

We noted improvements made by City Payroll since the last audit performed in this area. Improvements included a checklist for processing new hire, termination and retirement paperwork. This improvement provided greater assurance that paperwork for new hires, terminations and retirements were properly and completely processed.

CONCLUSION

We concluded that overall, the internal control structure was adequate, transactions were being processed effectively and efficiently, and policies and procedures in key areas were being followed. During the course of the audit we identified two observations as well as one opportunity for improvement and have listed our recommendations in the attached report.



OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

INSUFFICIENT MONITORING OF ADMINISTRATOR ACTIONS AND USER ACCESS LEVELS

The following concerns related to user access levels were identified:

- The payroll supervisor had administrator level access to the system, which allowed her to change settings without anyone else's involvement.
- Four payroll staff and one accounting staff had user access levels that were greater than their job responsibilities required.
- An Information Systems Analyst had the ability to initiate changes to time and labor rules in the system without appropriate approval for such changes.

City Human Resources and City Payroll utilized a software system to enter employment and payroll related data and pay employees. To ensure segregation of duties, personnel should not be able to both update employment data such as adding new employees, as well as, process payroll. However, due to limited staffing, Payroll personnel and an accountant were previously provided additional responsibilities usually performed by Human Resources. We noted that this access was no longer required, but access levels were not updated. There was no periodic review of user access levels to verify the appropriateness of access as compared to assigned job responsibilities.

The administrator access level provided the user with the ability to modify any data within the system (e.g. add employees, update payroll taxes and calculation information) without the segregation of duties provided by another user's involvement. Reports should be in place and management should perform regular reviews to monitor administrator transactions to ensure administrators are not making updates that should be made by operations personnel and identify any inappropriate transactions. The system logged all actions performed on specific data fields, but this log was only reviewed if an issue had already been identified. Also, the information was not in a format that facilitated review.

AUDITOR'S RECOMMENDATION

Management should develop a process to ensure access levels are appropriate for each employee's job responsibilities and to periodically review such access for continued appropriateness.

A process should be developed to monitor transactions entered under administrator access.

CITY RESPONSE:

We agree with the finding. The responsibility for security and user access for the City's payroll processing system lies within the Information Technology and Human Resource Departments. The Finance Department, Payroll and Pension Division will partner with those divisions to



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ensure the security and access levels for payroll personnel are properly maintained. Access levels for the payroll group have been changed to remove ability to update employee data. Administrator access will be monitored and a report sent to appropriate manager quarterly.



INSUFFICIENT ACCESS CONTROL AND PERIODIC REVIEW OF KEY REPORT QUERIES

There were 26 personnel not classified as City Payroll, City Human Resources, or City Information Technology employees that could edit queries supporting the key reports used to verify payroll accuracy. Management had not identified the need to restrict access to editing or to periodically verify the accuracy of the queries supporting the key reports.

City Human Resources and City Payroll utilized a software system to manage employment and payroll data entry and processing of the employee payroll. Queries were used to extract specific information from the database and generate reports used to verify the accuracy of the payroll amounts when payroll was processed.

If unauthorized personnel have the ability to edit the queries supporting key reports, the risk of the controls in place (the key reports) becoming ineffective or circumvented increases. Additionally, if the queries supporting the key controls are not periodically verified to ensure they are configured as originally intended, changes could be made to prevent reporting and detection of inappropriate transactions.

AUDITOR'S RECOMMENDATION

Management should restrict the privilege of editing the queries supporting the key reports to authorized personnel only. Additionally, management should implement a process to periodically review the accuracy of the queries supporting the key reports to ensure they are working as originally intended.

CITY RESPONSE:

We agree with the finding. The responsibility for security and user access for the City's payroll processing system lies within the Information Technology and Human Resource Departments. Information Technology and Human Resources will investigate the security settings on queries to see if there are opportunities for improvement as well as implement a process to review and restrict query privileges on a quarterly basis. As a workaround, the Finance Division, Payroll and Pension Department, will add instructions to have each technician check the query properties before running each query to see when the query was changed last and by which user. If it was changed, they will need to have the Payroll Supervisor check the query to ensure it is still configured correctly.



OPPORTUNITIES FOR IMPROVEMENT

IMPROVED MANAGEMENT REPORTING TOOLS FOR POLICE DEPARTMENT LABOR COSTS

During our audit, we noted that the City Payroll System as implemented was designed to accurately enter and pay City employees. However, the Payroll system did not include management reporting to allow the Police Department to analyze pay patterns and utilize this data in staffing and scheduling decisions. This additional data would facilitate the Police Department's efforts to schedule staff in an optimal manner that promotes efficiency and minimizes overtime.

A scheduling and staffing module has been acquired by the Police Department that would provide management reporting. However, implementing this module would require significant manual entry of employee schedules and actual shifts worked. Another consideration was that several new computer systems were implemented recently in the Police Department and efforts were focused on ensuring the maximum benefit was obtained from these systems.

The Police Department has applied for funding for a computer-aided dispatching system which would also allow time worked to be uploaded into the scheduling and staffing module without manual entry. The City Auditor's Office agrees that this would allow for the management reporting identified as a business need by the Police Department.

AUDITOR'S RECOMMENDATION

We recommend that the Police Department continue to work towards a solution that would provide management reporting of pay patterns for use in staffing and scheduling.

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 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

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 such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests. Sufficient competent evidential matter was gathered to support our conclusions.