



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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## 20-08 Colorado Springs Utilities Disbursements

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### **Purpose**

The objective of the Colorado Springs Utilities Disbursements Audit was to evaluate the adequacy of the internal controls surrounding cash disbursements. Cash disbursements were reviewed on a cyclical basis by the Office of the City Auditor, to ensure reliability of financial information and safeguarding of resources.

### **Highlights**

We conclude that overall, the controls over cash disbursements were adequate to ensure reliable financial information and safeguarding of resources. We identified two recommendations and one opportunity for improvement to strengthen the internal controls related to the vendor master file for cash disbursements.

Our audit period was January 1 through December 31, 2019. Colorado Springs Utilities Accounts Payable section within the Planning and Finance Division included five employees, and was responsible for payment of all expenditures for the enterprise. The vendor master file was maintained by the Contract Compliance group within Procurement and Contract Services (PCS). For 2019, approximately 37,400 invoices totaling \$598 million were paid.

To accomplish our audit objectives, we obtained an understanding of the internal control structure for disbursement operations. We also reviewed available literature, to identify expenditure cycle internal control best practices.

Audit procedures included interviews of management and staff along with observation of operating processes. Our work was coordinated with the work of Colorado Springs Utilities external auditors.

### **Management Response**

Colorado Springs Utilities was in agreement with our recommendations.

### **Recommendations**

1. Utilities should assign clear ownership and oversight for the vendor master file to include:
  - PCS management approval for new vendors, and vendor reactivation;
  - Validate new vendor authenticity, confirm address changes with the vendor;
  - System vendor master file control procedures.
2. Develop policy to inactivate vendors after a period without payment activity. Determine if:
  - A business need exists to retain customer refund records in the vendor master;
  - The inactivation process for vendor master records could be automated.

### **Opportunity for Improvement**

1. Review the process to change access when employees change roles, as well as, routine access reviews.

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## **Observation 1**

Clear ownership of the vendor master file and related controls to ensure oversight had not been established.

- PCS management approval was not required to add new vendors or reactivate vendors.
- Vendors could be added to the master file or changes made without verification to independent sources.
- Daily master file control reports were not reviewed.

Vendors could be added or reactivated upon request by certain Utilities employees without approval by PCS management. PCS was not required to determine a business need existed for goods and services provided by the vendor.

PCS staff verified the tax identification number for new vendors to the Internal Revenue Service website. However, procedures did not include independent review to vendor websites, phone calls, or other means to determine authenticity. Vendors were generally not contacted to determine address changes were valid.

Daily reports of additions and changes to the master file were produced by the system but were not reviewed by PCS staff to ensure changes were accurate and properly authorized. We noted that during invoice processing, Accounts Payable verified vendor information per the invoice to the vendor data in the system.

Vendor master file approval would ensure vendors were properly authorized and on the approved vendor list. Related master file controls would ensure vendors were authentic, and reduce the risk of improper payments.

## **Management Response**

PCS agrees to complete review checks for new vendor setups and banking information, and to implement process changes by 7/1/20.

We will confirm with email to PCS management each new vendor record established. We will confirm address changes to existing records with independent verification to supplier contacts on existing vendor records, implementation by 7/1/20.

PCS will develop procedures for validating the authenticity of new vendors by 7/1/20.

## **Recommendation**

Utilities should assign clear ownership and oversight for the vendor master file to include:

- PCS management approval for new vendors and vendor reactivation;
- Independent validation that new vendors were authentic and confirmation of address changes with the vendor;
- Control procedures that require independent review of system vendor master file reports and agreement to support;
- Review of master file control reports for accuracy and completeness.

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## **Observation 2**

- The active vendor master file in the general ledger system included vendor records without payment activity for several years.
- A significant percentage of vendor master file records were created to process refunds to customers.

Utilities PCS provided a general ledger vendor master file listing which indicated that 5,747 active vendors had not been paid in the last three years. PCS employees utilized a manual process to research vendor records and change status to inactive as time allowed.

The vendor master file listing provided to us by Utilities indicated that 14,720 of 22,325 active vendors in the general ledger system related to customer refunds. Vendor master file records were created through an interface with the customer billing system to process refunds. A process was not in place to deactivate or archive these customer refund vendor records.

Regular inactivation of vendor accounts that are not in active use reduces the risk of erroneous or inappropriate payments.

## **Management Response**

We agree with the recommendation. PCS will investigate opportunities to automate the deactivation of vendors in the Enterprise Resource Planning (ERP) system. Scripts can be run in the general ledger system to deactivate vendors, which Utilities Accounting will perform on a semi-annual basis. PCS Vendor Management will require written explanation for each request to reactivate vendors and PCS management approval for ERP vendor records. Explanation and approval of reactivation of general ledger system only vendors will be evaluated for technical feasibility to meet this recommendation. Process changes and evaluations will be completed by 7/1/20.

## **Recommendation**

Utilities PCS should:

- Develop a policy for inactivating vendors without payment activity for a period to be determined by management, such as 18 months;
- Determine if a business need existed to retain customer refund records in the vendor master;
- Determine if the inactivation process for vendor master records could be automated.

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## **Opportunity 1**

- Permission to modify the vendor master file was assigned to employees that had transferred to new positions within the organization and no longer required access.

During our fieldwork, management removed the ability to update the vendor master file from those employees that no longer required access.

The Global Technology Guide 9 (GTAG) published by the Institute of Internal Auditors provided guidance related to identity and access management. According to GTAG, user access should be appropriate for the job being performed.

Because system control reports were not reviewed, master file changes were not subject to review. This lack of review could have allowed unauthorized vendors to be set up or improper address changes to be made.

Additionally, system access should be reviewed regularly by management to ensure alignment with job duties.

## **Management Response**

We agree with the recommendation. Possibly more detailed reviews need to be done and we will work with Information Technology to coordinate opportunities for improvement in this area, completed by 7/1/20.

## **Recommendation**

Utilities PCS should consider:

- Review of the processes to change access when employees change roles as well as, routine access rights reviews.