



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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16-14 Colorado Springs Utilities Disbursements Audit

July 2016

Purpose

The objective of the Colorado Springs Utilities Disbursements Audit was to evaluate the adequacy of the internal controls surrounding cash disbursements. Cash disbursements was 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 one recommendation and one opportunity for improvement to strengthen the internal controls related to cash disbursements.

Our audit period was January 1 through December 31, 2015. Colorado Springs Utilities Accounts Payable section within the Planning and Financial Division included five employees, and was responsible for payment of all expenditures for the enterprise. For 2015, approximately 49,000 invoices totaling \$741.9 million were paid. The Office of the City Auditor issued the last disbursements audit report in May 2012, for the 2011 audit period.

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

Audit procedures included interviews of management and staff and observations of operating processes. Additionally, we performed data analytic tests such as review of the vendor master file for duplicate vendors. Our work was coordinated with the work of Colorado Springs Utilities external auditors.

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Management Response

Colorado Springs Utilities was in agreement with our recommendations.

Recommendation

1. Develop vendor master file maintenance procedures to inactivate vendors and ensure support for vendor address changes.

Opportunity for Improvement

1. Utilities should consider more well defined data entry standards and compliance procedures for the vendor master file.

This audit was conducted in conformance 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.

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Observation 1

Controls over the disbursements vendor master file could be improved to reduce the risk of improper or duplicate payments.

- A process was not in place to regularly review and inactivate vendors after a period of non-use.
- Vendor address changes could be made with limited support, such as an email from another Utilities employee.

During our review, we noted the master file included over 75,000 vendors. Approximately 19,000 of these vendor records were inactive, requiring a request to reactivate before payments could be processed. During 2015, payments were processed for only 5,511 vendors.

Independent support from the vendor was not required to be provided to the employee processing vendor address changes.

Effective vendor master file controls help protect against improper payments, such as to fictitious vendors.

Recommendation

Utilities should develop vendor master file maintenance procedures as follows:

- Review and inactivate vendors in the master file on a regular schedule to be determined by Utilities, such as every 18 months.
- Require and retain independent support from the vendor for all address changes.

Management Response

We agree with the finding and will develop and implement policies and procedures to inactivate and maintain our master invoice file.

Opportunity 1

Vendor master data file standardization of key information such as addresses could be improved.

This standardization would allow improved automated review for duplicate or improper payments, known as data analytics. When vendors have multiple accounts in the payment system, duplicate invoice payments were more likely.

As part of our audit, the Office of City Auditor generally performs analytical procedures to review for duplicate vendors or to cross check vendor data such as addresses against employee information.

Our data analytics efforts for this audit were constrained because of a lack of consistency in how data fields were utilized. For example, the address 1 field could have been used for an address or for a remit to name.

Recommendation

Utilities should consider more well defined standards for data entry for vendor master file fields.

Additionally, a process should be in place to enforce compliance with vendor master file data standards.

Management Response

We agree with the audit opportunity and will develop standardized format policies and procedures for our master file data entry.

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