



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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

## 19-07 Colorado Springs Utilities Payroll Audit

April 2019

### **Purpose**

The purpose of this audit was to evaluate the adequacy of internal controls over the payroll process, as well as, to review for compliance with policies and procedures. Our audit period was January 1, 2018 through September 30, 2018.

### **Highlights**

We conclude that overall, Colorado Springs Utilities internal controls over the payroll process were adequate to ensure reliable financial information and safeguarding of resources. Processes were functioning as intended and in compliance with policies and procedures. We identified three recommendations to strengthen internal controls.

Colorado Springs Utilities Payroll section within the Planning and Finance Division included four employees. The Payroll section was responsible for payment of payroll related expenditures for the enterprise workforce, or 1,828 employees as of September 30, 2018.

Audit procedures included interviews, internal control tests, and observations of operating processes. Our work was coordinated with the work of Colorado Springs Utilities external auditors.

Please see page two of this report for observation details.

### **Commendable practices**

During the course of our review, we noted that Payroll management had implemented process improvements, as follows:

- Time approval process—Training for new supervisors was conducted with automated approval. Training results were published to management noting supervisors with delayed approvals.
- Implemented electronic W-2's – This resulted in cost savings and increased convenience for employees.
- Improved tracking and documentation for wire transfer requests.

### **Recommendations**

1. Payroll management should:

- Restrict payroll data files to those with a business need.
- Review access to payroll files on a periodic basis.

2. Payroll and Information Technology management should develop a process to monitor resource management system permissions.

3. Human Resources and Accounting should:

- Perform regular reviews of administrator transactions using the monitoring reports in place.
- Identify and address the reason why the process was previously discontinued.

### **Management Response**

Management was in agreement with our recommendations.

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## **Observation 1**

- Access to hard copy payroll files was not restricted to Payroll personnel only.

We observed that a number of organizations and individuals had file room access. Payroll files, check stock, and the signature plate were located in the file room.

Employee payroll records contained sensitive personally identifiable information (PII). Payroll files were in cabinets that were not locked. Files could potentially be viewed by anyone with file room access.

## **Management Response**

Utilities agrees that this information should always be safeguarded. The Payroll team will work with our Facilities team to provide an action plan that will limit access and secure the room and its information to only those with a legitimate business need to have this access. We will partner with the Office of the City Auditor to review this plan and ensure it provides adequate restriction to sensitive information. These changes will be implemented by no later than 9/30/2019.

## **Recommendation**

Payroll should:

- Restrict access to payroll files with sensitive data to those with a legitimate business need.
- Review access to payroll files containing sensitive data on a periodic basis.

## **Observation 2**

- Two non-supervisory employees, in our sample test, had the ability to approve time-ticket submittals for other employees.

IT management confirmed that these employees no longer required time approval authority in the resource management system and that their permissions to approve time would be removed.

## **Management Response**

Utilities agrees that only employees in supervision roles should have access to approve time entry records. Utilities will develop a report to monitor employees whose supervision responsibilities have changed to ensure time approval access has been modified appropriately. These changes will be implemented by no later than 9/30/2019.

## **Recommendation**

Payroll and Information Technology should work together to:

- Develop a process to confirm resource management systems permissions on an ongoing basis.
- Modify permissions when job responsibilities change and access to time approval is no longer required.

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## **Observation 3**

- Reporting was not in place to monitor administrator access to the Human Resources and Payroll applications.

Business Applications Administrators (BAA) had the ability to enter key transactions such as adding employees, terminating employees, and changing pay rates in the system, creating a segregation of duties concern.

Utilities had developed a process to monitor BAA activity. However, at the time of our audit, reports were not in place to monitor transactions entered by Administrators. During our audit, Human Resources and Accounting implemented a monitoring process.

## **Management Response**

Utilities agrees that the Administrator transaction monitoring reports should be run by both Finance and Human Resources on a quarterly basis and be made available to the Office of the City Auditor on request. These changes were implemented 1/1/2019 and quarterly reports are now available for review.

## **Recommendation**

Human Resources and Accounting should:

- Perform regular reviews of administrator transactions using the monitoring reports in place.
- Identify and address the reason why the process was previously discontinued.