



## Office of the City Auditor

Date: March 26, 2010  
To: Honorable Mayor and Members of City Council  
Re: 10-05 - Annual Follow-up Report

### Background

The Office of the City Auditor follows the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework as published by the Institute of Internal Auditors Research Foundation. These standards are commonly referred to as the "Red Book" Standards. Red Book Standard 2500.A1 on Monitoring Progress states, "The Chief Audit Executive should establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action." We have developed a follow-up process and plan to provide an annual report on our efforts. This report is our first annual report related to the follow-up process.

### Scope and Methodology

We reviewed all management actions included in reports issued January 1 through December 31, 2008, with implementation dates prior to July 1, 2009. The objective of this follow-up audit was to determine whether (and to what extent) appropriate and timely actions had been taken to implement management's planned actions for outstanding audit recommendations.

The audit was conducted in accordance 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. The audit included interviews with appropriate personnel and such tests of records and other supporting documentation as we deemed necessary in the circumstances. When appropriate, we reviewed the internal control structure and compliance tests were performed. Sufficient competent evidential matter was gathered to support our conclusions.

### Separate Report

For one audit reports issued during the January 1 to December 31, 2008 period, we elected to perform a separate follow-up audit and issue a separate report. The audit was:

09-17 – Stormwater Enterprise and Streets Reconciliation

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## Overall Opinion

We reviewed 56 management actions. Based on our review, we concluded:

- 83.9% management actions were implemented,
- 3 (5.4%) management actions was partially implemented, and
- 6 (10.7%) management actions were open and subject to retesting or additional follow-up.

A statistical summary of the audits reviewed is attached as Exhibit 1. The above numbers include the results of the audit report issued separately (09-17).

Overall, management appeared to be responsive to our audit comments. They either fully or partially implemented their actions or planned corrective action within a reasonable amount of time for 50 (89.3%) of the management actions.

As mentioned above, there were six management actions which had not been implemented and are subject to retesting. Further information on these six items are as follows:

### 08-08 – City – Payroll Full System Review - Finding 1

#### Auditor's Recommendation:

We recommend the Streets Department develop a disaster recovery plan for its employee time keeping system.

#### City's Response:

While the Payroll Department prefers to receive the electronic file from the Streets Department, it is not a requirement. The Payroll Department would be able to accept the paper time cards from the Streets Department and enter it into the PeopleSoft HRMS system if the electronic data was lost or unavailable without any delay in the processing of the City's Payroll as the file contains data for less than one hundred employees.

The Streets Department agrees with the finding and the recommendation to develop a disaster recovery plan for their time keeping system as this was a known issue prior to the Payroll Audit and is continuing to work with the City's Information Technology Department to do so. The Streets Department developed their database for Project Management purposes, which includes labor tracking, but it was not designed specifically for payroll purposes.

#### *Follow-up Status:*

*As of the date of this follow-up report, we had not been provided evidence that a plan had been developed.*

08-09 – City – Stormwater Enterprise and Streets Reconciliation - Finding 1 and 7 are reported separately in Report 09-17.

08-20 - Colorado Springs Utilities – Procurement & Contracting Services – Finding 1

Auditor’s Recommendation:

We recommend controls be implemented to ensure approval levels are within policy guidelines and updated whenever employee job status changes.

Colorado Springs Utilities Response:

Colorado Springs Utilities agrees with the Office of the City Auditor’s recommendation that internal controls be implemented to ensure approval levels are within policy guidelines. Approval limits were reviewed and corrected in RMS version 4.1.1 in the fourth quarter of 2007.

Additionally, Colorado Springs Utilities is currently embarking on a signatory authority project where role-based limits are being established and will be maintained in RMS version 4.1.1. Another update to RMS version 4.1.1 is expected to occur by December 31, 2008. Automated updating capability is anticipated to be implemented during the RMS Phase II project which will follow the release of RMS version 6.22.

*Follow-up Status:*

*As of the date of the follow-up report, the RMS upgrade has not been completed. Additional follow-up should occur in 2010.*

08-20 - Colorado Springs Utilities – Procurement & Contracting Services – Finding 2

Auditor’s Recommendation:

We recommend implementation of a system control to prevent creation of negative total cost POs. Management should ensure proper processes are followed to seek reimbursement from vendors. Additional training may be needed to ensure understanding and compliance.

Colorado Springs Utilities Response:

Colorado Springs Utilities agrees with the Office of the City Auditor’s recommendation that system controls be implemented to prevent the creation of negative total cost POs. Training to prevent this situation from occurring has occurred. In addition, RMS version 6.22, due to be released in the first quarter of 2009, will include controls which disallow POs from having a total cost of less than zero.

*Follow-up Status:*

*As of the date of the follow-up report, the RMS upgrade has not been completed. Additional follow-up should occur in 2010.*

08-20 - Colorado Springs Utilities – Procurement & Contracting Services – Finding 3

Auditor's Recommendation:

We recommend Springs Utilities review purchase related QBDs for accuracy, clarity, and elimination of duplication. Additional training to those performing the purchasing function may be warranted to ensure compliance.

Specific recommendations for the three areas mentioned above are as follows.

- a. We recommend the system programming prevent the approval of a PR by the creator. Until this can be implemented, we recommend a response be required from the supervisor in the above mentioned report, in order for the purchase to proceed. Lack of a response should not equal approval.
- b. We recommend training be provided to all who complete and approve SSJs to ensure consistency and understanding in completion and use of the form. Additionally, controls should be implemented to ensure policies are followed and specific exceptions are approved in writing.
- c. We recommend management ensure procurement processes are followed. If specified processes are not followed, management should document the incident and corrective action taken.

Colorado Springs Utilities Response:

Colorado Springs Utilities agrees with the Office of the City Auditor's recommendation that purchase related QBDs be reviewed for accuracy, clarity, and elimination of unnecessary duplication. Per QBD #00002 – Document Control, version 07, section 6.10, "Documents are scheduled for evaluation every three years after the last approval date." Purchase related QBDs will be reviewed for accuracy, clarity, and elimination of unnecessary duplication during their required evaluation period and updated as appropriate.

- a. Colorado Springs Utilities agrees with the Office of the City Auditor's recommendation that system programming be implemented to prevent the approval of a PR by the creator. RMS version 6.22, due to be released in the first quarter of 2009, will include controls which prevent the approval of a PR by the creator. Until the release, exception reports are being generated on a regular basis and reviewed for compliance by the appropriate supervisors or managers.
- b. Colorado Springs Utilities agrees with the Office of the City Auditor's recommendation that training be provided to all who complete and approve SSJs to ensure consistency and understanding in completion and use of the form.

QBD #09921 – Sole Source Procurement version 03 was recently updated and approved on September 22, 2008. Training on the newly updated process is planned for completion by December 31, 2008.

- c. Colorado Springs Utilities agrees with the Office of the City Auditor's recommendation that management ensure procurement processes are followed. Per QBD #11298 – Unauthorized Purchase Approval Request, version 02, section 5.2.3, the authorized Procurement Agent is responsible for "... and escalate any concerns involving requestors that repeatedly violate approved procurement regulations and underlying processes to the Sourcing & Contracts Manager." Therefore, if such serious or chronic situations occur, it is expected that, when identified, they would be reported to the appropriate level of supervision.

*Follow-up Status:*

*As of the date of the follow-up report, the RMS upgrade has not been completed. Additional follow-up should occur in 2010.*

Our next follow-up will be performed later this year and will cover audits completed during the 2009 calendar year as well as the items from this report that were not implemented.

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

Sincerely,



Denny L. Nester  
Interim City Auditor

Cc: City of Colorado Springs:  
Penelope Culbreth-Graft, DPA, City Manager  
Nancy Johnson, Assistant City Manger  
Terri Velasquez, Chief Financial Officer

Colorado Springs Utilities:  
Jerry Forte, Chief Executive Officer  
Bill Cherrier, Officer, Planning & Finance Division  
David Maier, Manager, Enterprise Risk Management Services

Memorial Health System:  
Dr. Larry McEvoy II, Chief Executive Officer  
Tracy Narvet, Interim Chief Financial Officer  
Mike Scialdone, Chief Financial Officer  
Jason Fahrlander, Chief Executive Officer  
Members of the Memorial Health System Audit Committee

| Exhibit 1  |                        | Implementation Status of Management Actions    |                        |                              |   |  |   |  |
|--|------------------------|--|------------------------|------------------------------|---|--|---|--|
| This report covers audits issued between January 1 and December 31, 2008 |                        |  |                        |                              |   |  |   |  |
|  |                        |  |                        | Number of Management Actions | Number Effectively Implemented or Risk Accepted | Number Partially Implemented* or Deemed Less Significant** | Number Open and Subject to Re-testing or Additional Follow-up |  |
|  |                        | Date Issued                                    | Accepted by Management |                              |   |  |   |  |
|  | Report Number and Name |  |                        |                              |   |  |   |  |
| <b>City of Colorado Springs:</b>   |                        |  |                        |                              |   |  |   |  |
|  | 08-02                  | Police Department Impound Lot                  | 02/13/08               | 10                           | 10  |  |   |  |
|  | 08-07                  | Claims Reserve Fund                            | 07/23/08               | 3                            | 3   |  |   |  |
|  | 08-08                  | Payroll  | 07/23/08               | 2                            | 1   |  | 1   |  |
|  | 08-09                  | SWENT and Streets Reconciliation               | 08/13/08               | 7                            | 5   |  | 2   |  |
|  | 08-11                  | Contracting Division                           | 08/13/08               | 4                            | 4   |  |   |  |
| <b>Colorado Springs Utilities:</b>                                       |                        |  |                        |                              |   |  |   |  |
|  | 08-18                  | Travel and Training Follow-up                  | 10/22/08               | 5                            | 5   |  |   |  |
|  | 08-20                  | Procurement & Contracting Services             | 11/12/08               | 5                            | 2   |  | 3   |  |
| <b>Memorial Health System:</b>   |                        |  |                        |                              |   |  |   |  |
|  | 08-04                  | 2007 Year End Construction                     | 03/26/08               | 3                            | 3   |  |   |  |
|  | 08-06                  | Worker's Compensation Self Insurance           | 04/30/08               | 7                            | 7   |  |   |  |
|  | 08-15                  | Purchasing Card Review                         | 09/03/08               | 2                            | 2   |  |   |  |
| <b>Airport:</b>  |                        |  |                        |                              |   |  |   |  |
|  | 08-01                  | Off-Airport Car Rentals                        | 01/02/08               | 4                            | 1   | 3  |   |  |
|  | 08-03                  | Interspace Advertising Contract                | 03/12/08               | 4                            | 4   |  |   |  |
|  |                        | Totals   |                        | 56                           | 47  | 3  | 6   |  |
|  |                        | Percents                                       |                        |                              | 83.9%   | 5.4%   | 10.7%   |  |
| <b>Findings that need to be re-tested:</b>                               |                        |  |                        |                              |   |  |   |  |
|  | 08-08                  | Payroll - Finding 1                            |                        |                              |   |  |   |  |
|  | 08-09                  | SWENT and Streets Reconciliation - Finding 1   |                        |                              |   |  |   |  |
|  | 08-09                  | SWENT and Streets Reconciliation - Finding 7   |                        |                              |   |  |   |  |
|  | 08-20                  | Procurement & Contracting Services - Finding 1 |                        |                              |   |  |   |  |
|  | 08-20                  | Procurement & Contracting Services - Finding 2 |                        |                              |   |  |   |  |
|  | 08-20                  | Procurement & Contracting Services - Finding 3 |                        |                              |   |  |   |  |