



Office of the City Auditor

Date: June 28, 2006
To: Honorable Mayor and Members of City Council
Re: 06-328 – Memorial Health Systems 2005 Payroll Monitoring

AUTHORIZATION AND BACKGROUND

City Code 1.2.706 states: “the City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council.”

Considering the magnitude of this requirement, the City Auditor has established a practice of methodically auditing all major systems every five years. The purpose of these system audits is to evaluate the internal controls that are used to ensure the reliability of financial information. The five major systems audited on this rotating basis are:

- Accounts Receivable/Billing,
- Accounts Payable,
- Payroll,
- Investments, and
- Purchasing.

The City Auditor’s Office has begun a program designed to verify the reliability of the City’s databases on an ongoing basis. We call this our Continuous Monitoring Program. To accomplish this goal, we use a computer aided audit tool sometimes referred to as “Audit Command Language” or ACL. This tool allows the Auditor’s Office to access various databases and compare information maintained in those databases. Since this is only an access tool, there is no threat the City Auditor’s Office could modify or corrupt any database. Our initial focus for these Continuous Monitoring Reviews is to provide coverage during the four year period between our full system audits.

The first system chosen to be monitored under this method was the Payroll system.

Reports for the Continuous Monitoring Program are less formal than those for Full System Audits and consist of this letter.

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OUR REVIEW

We have completed our review of the personnel and payroll information stored in Memorial Health Systems Lawson Financial/Human Analytic System (FHAS) for the period January 1, 2005 to December 31, 2005. The purpose of this review was to determine the integrity of payroll data and payments to employees. Utilizing automated audit tools, we were able to perform a battery of tests on the data, including but not limited to:

- Paychecks recorded in the appropriate time period,
- Paychecks coded to the appropriate bank code,
- Paychecks contained valid employee identification numbers,
- Search for duplicate check or control numbers,
- Search for inappropriate gaps in check or control numbers,
- Exempt employees with overtime pay,
- Reasonableness of job codes,
- Reasonableness of payment types,
- Compared hourly rates for job codes to salary schedules,
- Search for duplicate employee identification numbers, and
- Search for duplicate social security numbers.

Based upon our review, we noted two areas of concern.

1. **There were two employees with the same recorded social security number.**

The data system contained two employees with the same social security number. Both employees were documented as retired and no payments were made to either in 2005. The Compensation Manager was not able to locate any records for one of the employees in the Medical Network, Patient Financial Services, pension records nor HIS. The Compensation Manager believes the employee records were for the same person.

Auditor's Recommendation:

We recommend the periodic review of social security numbers to ensure inappropriate duplicates do not exist. In addition, we recommend the periodic verification of all employee social security numbers using the automated procedures established by the Social Security Administration.

Memorial's Response:

We have deleted the duplicate employee file in our records, as we could not verify existence of such person with the Social Security Administration. Our life insurance paper file indicated record for only one of the persons with the Social Security number and this further verified our decision to delete the second duplicate. We shall verify social security numbers using the automated procedures with the Social Security Administration at least once every two calendar years by doing a comprehensive total employee check. This is in addition to the check we do with every single new hire at the time of hire. In addition, our policies and procedures require that the employee present a new Social Security Card to us for our files whenever they change their name.

2. There were employees with incorrect job codes.

There were ten employees with incorrectly recorded job codes. These were found upon testing for hourly rates higher than the salary schedule maximum. All ten of these individuals appeared to have been paid at a rate higher than the maximum allowed for their job duties. However, upon revision of their job codes, each was within range according to their new job code.

Auditor's Recommendation:

We recommend that procedures be implemented to include revising the job code in Lawson, if necessary, when an employee is reclassified.

Memorial's Response:

Job codes in our system do not impact pay, status, or benefits eligibility. They are used only for internal tracking purposes and for that reason they need to be accurate. We have implemented a procedure whereby we verify by manual audit once per month the accuracy of all job codes.

In closing, other than the two items mentioned above, our test work led us to conclude the payroll data appeared reasonable and reliable. Further, we were pleased with the overall accuracy of the more than 91,000 pay checks we reviewed and commend all involved for their diligent efforts.

Sincerely,



Jeff Litchfield
City Auditor

Cc: Richard Eitel, Hospital Executive Director
Gary Flansburg, Hospital Chief Financial Officer
Joe Zeman, Hospital Compensation Manager
Tracy Narvet, Hospital Controller
Joy Powell, Hospital Human Resources Director