



City Council's Office of the City Auditor

PUBLIC REPORT

Date: June 11, 2007

To: Honorable Mayor and Members of City Council
Members of MHS Audit Committee
Members of MHS Board of Trustees

Re: 07-328 – Memorial Health System - 2006 Payroll Monitoring

AUTHORIZATION AND BACKGROUND

City Code 1.2.704 states: "The City Auditor shall perform a current post-audit of the financial operation of the City government and its enterprises, and shall devote full time and effort to post-audit examinations and reporting. The City Auditor shall submit reports to Council of periodic audits of each enterprise, department, group, unit, division or account. The Auditor shall have access to the books and accounts of all City enterprises, groups, departments, administrative officials or employees charged with the receipt, custody or safekeeping of public funds."

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 these requirements, 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 (General and Purchasing Cards).

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The City Auditor's Office has developed 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 focus for these Continuous Monitoring Reviews is to provide coverage during the four year period between our full system audits.

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

OUR REVIEW

We have completed our review of the personnel and payroll information stored in the Memorial Health System's (MHS) Lawson Financial/Human Analytic Systems for the period January 1, 2006 to December 31, 2006. The purpose of this review was to evaluate 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 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 anomalies in employee direct deposit information.

Based on the test work performed, the payroll data appeared to be reasonable and reliable. We did not identify any reportable conditions. We were pleased with the overall accuracy of the more than 95,000 paychecks we reviewed and commend all involved for their diligent efforts.

Sincerely,



Jeff Litchfield
City Auditor

Cc: Richard Eitel, MHS Executive Director
Gary Flansburg, MHS Chief Financial Officer
Joe Zeman, MHS Compensation Manager
Tracy Narvet, MHS Controller
Ron Burnside, MHS Human Resources Director
John Wycoff, MHS Compliance Officer