



**CITY OF COLORADO SPRINGS
OFFICE OF THE CITY AUDITOR**

**08-15 – MEMORIAL HEALTH SYSTEM
PURCHASING CARD REVIEW**

PUBLIC REPORT

SEPTEMBER 3, 2008

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Office of the City Auditor

Public Report

Date: September 3, 2008

To: Honorable Mayor and Members of City Council
Members of Memorial Health System's Audit Committee
Members of the Memorial Health System's Board of Trustees

Re: 08-15 – Memorial Health System Purchasing Card Review

We performed an audit of Memorial Health System's (MHS) Purchasing Card (P-card) program. The audit period was January 2006 through September 2007. During the audit period, MHS utilized P-cards to complete 18,789 purchases totaling \$8,957,236. At the time of our review, there were 128 active cardholders in 51 departments.

During June of 2005, MHS joined the P-card consortium comprised of the City of Colorado Springs, Colorado Springs Utilities, El Paso County, and the City of Manitou Springs to combine purchasing volume. By combining purchasing volume, MHS has received a rebate of approximately \$99,234 for P-card purchases made through March 31, 2008. In addition, MHS pays no annual fee per P-card and has zero liability for fraud.

The purpose of the audit was to examine the existing accounting procedures and internal control measures and determine if P-card use was in compliance with applicable policies and procedures.

We conclude that overall, the existing accounting procedures and internal control measures were adequate and P-card use was in compliance with applicable policies and procedures. However, during the course of our audit, we did identify areas where we believe internal controls can be strengthened. They are listed in the attached report.

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

Sincerely,

A handwritten signature in blue ink that reads "Jeff Litchfield".

Jeff Litchfield
City Auditor

cc: Dr. Larry McEvoy, II, Chief Executive Officer
Tracy Narvet, Interim Chief Financial Officer
Steve Weber, Accounting Manager
John Wyckoff, Compliance Officer

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE

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Abbreviations and Acronyms used in this Report

MHS	Memorial Health System
P-card	Purchasing Card
PPM	Purchasing Card Policies and Procedures Manual
Finance	Finance Department

Introduction

AUTHORIZATION

We performed an audit of Memorial Health System's (MHS) Purchasing Card (P-card) program for the period beginning January 1, 2006 and ending September 30, 2007. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703 through 706, in addition to Chapter 13, Article 1, Part 103 which state:

1.2.703: ENSURE PUBLIC ACCOUNTABILITY:

The City Auditor shall ensure that administrative officials are held publicly accountable for their use of public funds and the other resources at their disposal. The City Auditor shall investigate whether or not laws are being administered in the public interest, determine if there have been abuses of discretion, arbitrary actions or errors of judgment, and shall encourage diligence on the part of administrative officials.

1.2.704: PERFORM POST-AUDIT:

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.

1.2.705: DETERMINE EFFECTIVENESS AND EFFICIENCY OF PROGRAMS:

The City Auditor shall determine the extent to which legislative policies are being efficiently and effectively implemented by administrative officials. The City Auditor shall determine whether City programs are achieving desired objectives. The City Auditor shall review the administrative control systems established by the enterprises, department, or group managers and by the City Manager, Utilities Executive Director, and Memorial Hospital Executive Director and determine whether these control systems are adequate and effective in accomplishing their objectives.

1.2.706: EXAMINE BOOKS, RECORDS:

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. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper, or record in the custody of that person or public official.

Introduction

13.1.103: ENTERPRISE STATUS; FUNDS; CITY ATTORNEY; CITY AUDITOR:

- C. In accord with the provisions of chapter 1 of this Code, the City Auditor shall have those duties and responsibilities imposed by City Council to ensure the public accountability of Memorial Hospital.

ORGANIZATIONAL PLACEMENT

The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council. The audited entity in this audit, MHS, is an enterprise fund of the City of Colorado Springs under the direction of its Chief Executive Officer. The Chief Executive Officer reports to the Memorial Health System Board of Trustees, who are appointed by the City Council.

SCOPE AND METHODOLOGY

We performed an audit of MHS's P-card program for the period beginning January 1, 2006 and ending September 31, 2007. During the audit period, MHS utilized P-cards to complete 18,789 purchases totaling \$8,957,236. At the time of our review, there were 128 active cardholders in 51 departments. The purpose of the audit was to examine the existing accounting procedures and internal control measures and determine if P-card use was in compliance with applicable policies and procedures.

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 included such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests were performed. Sufficient competent evidential matter was gathered to support our conclusions.

BACKGROUND

The MHS P-card program began approximately seven years ago. During June of 2005, MHS joined the P-card consortium comprised of the City of Colorado Springs, Colorado Springs Utilities, El Paso County, and the City of Manitou Springs to combine purchasing volume. By combining purchasing volume, MHS has received a rebate of approximately \$99,234 for P-card purchases made through March 31, 2008. In addition, MHS pays no annual fee per P-card and has zero liability for fraud.

During June 2007, MHS's Finance Department (Finance) implemented an updated version of the P-card Policies and Procedures Manual (PPM). The updated version of the PPM improved the P-card program by strengthening internal controls. One policy change noteworthy of mention is the Finance Department implementation of employee P-card monthly audits for policy compliance, education, and remediation.

P-card purchases were evaluated during the audit according to the PPM in place at the time of the purchase.

Introduction

OVERALL OPINION

We conclude that overall, the existing accounting procedures and internal control measures were adequate and P-card use was in compliance with applicable policies and procedures. However, during the course of our audit, we did identify areas where we believe internal controls can be strengthened. These areas are listed on the pages that follow.

***We have made no determination as to which findings are more important than others.
Therefore, the findings are not necessarily listed in order of importance***

Findings, Recommendations, and Responses

1. Compliance with the Purchasing Card Policies and Procedures Manual was deficient in some areas.

a. Issuance of Purchase Cards

According to the PPM, P-cards were only to be issued to full-time permanent employees of MHS. During our review, we noted that five part-time, two agency, and two per diem employees had been issued P-cards. These nine individuals had P-card expenditures during the audit period.

b. Monthly Reconciliations

Out of the 43 monthly reconciliations we reviewed for approval, five or 11.6% were not approved. Seven or 16.3% were not submitted in a timely manner in accordance with the PPM.

c. Other Areas

Our review of P-card monthly reconciliations revealed other exceptions to the PPM, including:

- missing receipts,
- missing P-card statements,
- purchases that appear to have been made by someone other than the cardholder,
- purchases that were only substantiated by a packing slip or other document but not an invoice,
- purpose of purchases not documented,
- detailed receipts for meals not included, and
- receipts that were not dated around the time of the purchase.

These exceptions were not unique to our audit. Beginning in June 2007, Finance began monthly audits of P-card holder activity. The Finance audits that we reviewed noted similar exceptions.

Auditor's Recommendation:

We recommend that MHS comply with their PPM. For item a., if there is a business reason for someone other than a full-time permanent employee to use a P-card, the PPM should be modified accordingly.

We also recommend that MHS:

- ensure all new card holders are adequately trained concerning the requirements of the P-Card program and corrective action is taken for existing card holders who violate the PPM,
- send out a reminder message to current cardholders explaining the monthly reconciliation process, and
- require the Accounting Manager or Controller to review the monthly audits performed by Finance on a monthly basis.

Findings, Recommendations, and Responses

MHS's Response:

- 1.a. We agree with the finding and recommendation. Effective April 4, 2008, the PPM was modified to remove the item on page six that stated "Only full-time, permanent employees can have a P-Card".
- 1.b. We agree with the finding and the recommendation. MHS performs informal one-on-one & purchasing card training with each new cardholder providing them with the requirements of the P-Card program. This training is performed by the P-Card Administrator and the P-Card Auditor. As P-Cards are audited, those cardholders are again reminded of P-Card Policies and Procedures. Reminders of Policies and Procedures are also included with monthly P-Card emails that are sent out to cardholders. Corrective action is taken for those cardholders who violate the PPM.
- 1.c.

We feel that our current training and reminders are sufficient. We agree that the Controller should review the monthly audits performed by Finance on a monthly basis and this is currently being done.

An email communication has been developed that will be sent to all cardholders and managers addressing these and other important issues. This email will be sent out once the P-Card audit has been finalized.

Findings, Recommendations, and Responses

2. Sales tax was paid on purchasing card expenditures.

Sales tax should not be paid on most purchases made with MHS P-cards. MHS is a government entity and as such is tax exempt for most purchases. Of the 39 P-card statements we examined for sales tax, 14 or 35.9% had at least one purchase where sales tax was paid. While several of the statements had minimal sales tax paid, one statement had \$85.99 in sales tax and another had \$63.13.

The 14 statements involved 32 purchases with the average sales tax payment being \$7.75. Four of the purchases had sales tax payments at an amount greater than \$25.00.

Auditor's Recommendation:

We recommend that MHS send out a reminder message to current cardholders emphasizing MHS' tax-exempt status.

MHS's Response:

We agree with the finding and the recommendation. MHS will include reminders of sales tax-exempt status in the monthly P-Card emails that are sent out to cardholders.

An email communication has been developed that will be sent to all cardholders and managers addressing this and other important issues. This email will be sent out once the P-Card audit has been finalized.