



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

**09-21 – MEMORIAL HEALTH SYSTEM
PAYROLL FULL SYSTEM REVIEW**

PUBLIC REPORT

DECEMBER 11, 2009

Jeff Litchfield
City Auditor

Denny Nester, CPA CIA CGFM CFE
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Principal Auditor





Office of the City Auditor Public Report

Date: December 11, 2009

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

Re: 09-21 – Memorial Health System Payroll Full System Review

We performed an audit of Memorial Health System's (Memorial) payroll function for the year ended December 31, 2008. The purpose of the audit was to evaluate the adequacy of the internal control structure and whether Memorial policies and procedures were being followed.

We conclude that overall the internal control structure was adequate and that Memorial policies and procedures were being followed. However, during the course of our audit, we did identify areas where we believe internal controls can be strengthened. These areas are listed in the attached report.

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

Sincerely,

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

Jeff Litchfield
City Auditor

cc: Dr. Larry McEvoy II, Chief Executive Officer
Mike Scialdone, Chief Financial Officer
Jason Fahrlander, Chief Operating Officer
Carlene Crall, Senior Vice President Chief Human Resources Officer
Tracy Narvet, Controller
Steve Weber, Accounting Manager
Debra Colebank, Manager Payroll / Accounts Payable
Jeffrey Johnson, Director Human Resources
Patricia Reynolds, Manager Human Resources

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE CGAP

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ETC	Electronic Time Card System
Memorial	Memorial Health System

Introduction

AUTHORIZATION

We performed an audit of Memorial Health System's (Memorial) payroll function for the year ended December 31, 2008. 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.

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. 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

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, Memorial, is an enterprise of the City of Colorado Springs under the direction of its Chief Executive Officer. The Chief Executive Officer reports to the Memorial Board of Trustees, who are appointed by the City Council.

SCOPE AND METHODOLOGY

The purpose of the audit was to evaluate the adequacy of the internal control structure and whether Memorial policies and procedures were being followed. The audit covered the period January 1 to December 31, 2008.

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 City Auditor has established a practice of methodically auditing all major systems at least once every five years. The purpose of these system audits is to evaluate internal controls that are used to ensure the reliability of financial information. Payroll is one of the major systems that will be audited on a rotating basis.

During the year ended December 31, 2008, Memorial's Payroll Department processed approximately 121,000 payroll disbursements. Memorial's salaries and benefits expense for the year ended December 31, 2008 was \$292,312,000 or 55% of total operating expense. As of December 31, 2008, Memorial employed approximately 3,900 full time equivalents.

OVERALL OPINION

We conclude that overall the internal control structure was adequate and that Memorial policies and procedures were being followed. However, during the course of our audit, we did identify areas where we believe internal controls can be strengthened.

***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. **The general ledger reconciliations of payroll related withholding and liability accounts were not adequate. In addition, the Accounting Manager had not documented a review of the monthly payroll bank reconciliation.**

We reviewed four payroll related general ledger liability and withholding account reconciliations for the month ended April 2008. None of the reconciliations reviewed contained the name of the preparer, preparation date, or evidence of review and approval by someone other than the preparer. Three of the reconciliations did not contain adequate supporting documentation or substantiation of the ending balance. The reconciliation was a summary of general ledger activity that occurred between December 31, 2007 and April 30, 2008, not a substantiation of the ending balance.

We also examined the September 2008 payroll bank reconciliation. The reconciliation was not dated by the preparer. There was also no evidence of the Accounting Manager's review and approval by signature or date.

There may be errors contained in reconciliations that could go undetected without a secondary review and approval process. In addition the ending balance of the account may be incorrect if not adequately substantiated and supported.

This finding is similar to finding 4 from our report 06-320 – Cash Disbursements, which was issued March 19, 2007 and finding 4 from our report 07-324 – Investments, which was issued September 17, 2007.

Auditor's Recommendation:

We recommend that **all** account reconciliations, regardless of type:

- contain the name of the preparer,
- be dated by the preparer to document timely preparation,
- be signed and dated upon review by the Accounting Manager (or designee), and
- be reviewed by the Accounting Manager (or designee) in a timely manner.

Memorial's Response:

We agree with the auditor's recommendation. All bank and account reconciliations are and have been done and reviewed by MHS Finance staff and management. The reconciliations were performed electronically and stored electronically (in the form of excel spreadsheets). Hardcopies had not been printed (or signed) in the past in an attempt by the Health System to be "green" and save resources.

With the addition of the new CFO (at the end of 2008), a new month-end process has been developed. Reconciliations are now printed out monthly along with all documentation, reviewed and signed by management and tracked on a month-end schedule.

Findings, Recommendations, and Responses

2. Memorial was not following its Electronic Time Card Approval Policy.

During our review, we noted 11 instances of the 39 tested or 28%; where the employee's time card was approved by the Memorial Payroll Department staff, instead of the Electronic Time Card (ETC) assigned Approving Supervisor. The Payroll Department staff did not have knowledge of the appropriateness of hours worked by employees. While no instances were noted during our review, inappropriate pay could result if proper review and approval are not performed by appropriate staff. According to Memorial's Electronic Time Card System Policy, 'Final approval of Electronic Time Card System Hours must be provided by an authorized person in each department and submitted on schedule as defined by Payroll.' Time records should be approved by the employee's supervisor or assigned delegate. Supervisors should not approve their own time.

We also noted nine employees, who were not supervisors, and one agency employee, had the ability to approve time records. In addition, assigned Supervisors, who also resided in the department for which they approved time records, had the ability to approve their own time records.

Auditor's Recommendation:

We recommend that Memorial enforce its ETC Policy. We further recommend that Memorial strengthen its ETC approval policy by prohibiting ETC assigned Approving Supervisors from approving their own time. In addition, if the assigned Approving Supervisor is unable to approve the timecards for the pay period, the approval capability should be appropriately electronically delegated.

Memorial's Response:

We agree with the auditors recommendation. We realized that to be effective, the timecard approval process needed to take place at the "editor" level within ETC. That it was management's responsibility to review and monitor employees schedules and productivity regularly, We agree that the policies/procedures should be updated to reflect the actual control practice.

Findings, Recommendations, and Responses

3. Six employees had unlimited add, change, or delete access to the Lawson payroll system.

There were six employees assigned to the IS-ISH-HR security class, which had unlimited add, change, or delete access to the Lawson payroll system. These six employees acted as system administrators for the Lawson payroll system. No monitoring processes were in place for users assigned to the IS-ISH-HR security class.

Auditor's Recommendation:

We recommend that users assigned to the IS-ISH-HR security class be granted inquiry access only to the Lawson payroll system. If add, change, or delete access is required to the Lawson payroll system, MHS should develop a monitoring process for users assigned to the IS-ISH-HR security class.

Memorial's Response:

We agree with the auditors' recommendation and we have confirmed that the Add, Change, or Delete access is required for these individuals (computer support personnel) to perform their jobs (i.e. run reports, queries, etc.). We will develop a more complete monitoring process for any changes made by non-payroll personnel.

Findings, Recommendations, and Responses

4. Administrative and database user access accounts for the Electronic Time Card System need to be improved.

We noted several exceptions during our review of the Electronic Time Card (ETC) system administrator and database user access accounts. There were two generic administrator user accounts with shared access by more than one employee. Shared access does not allow for tracking of activities performed by each individual user. There were 19 additional application administrators. Application administrators had the ability to add, change, or delete time records in ETC. In addition, there were 17 database users with privileges to DB_Datawriter. These privileges allowed the user to modify time data in the ETC database directly.

Auditor's Recommendation:

We recommend that:

- generic application administrator accounts be disabled,
- individual accounts be created for the users assigned to the generic application administrator accounts,
- the number of application administrators be limited to the minimum number necessary to effectively and efficiently administer the ETC system, and
- review the necessity of database users with DB_Datawriter privileges.

Memorial's Response:

We agree with the auditors' recommendations. We will develop a more complete monitoring process for any changes made by non-payroll personnel.