



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

**10-21 MEMORIAL HEALTH SYSTEM  
SODEXO LIMITED CONTRACT REVIEW**

**PUBLIC REPORT**

**NOVEMBER 18, 2010**

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Interim City Auditor

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City of Colorado Springs



## Office of the City Auditor Public Report

Date: November 18, 2010

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

Re: 10-21 – Memorial Health System – Sodexo Limited Contract Review

We performed a limited contract review of Memorial Health System's (Memorial) Management Agreement with Sodexo America, LLC (Sodexo). The audit period covered the six months ended June 30, 2009.

The purpose of this audit was to review and ensure compliance with certain provisions of the Management Agreement between Memorial and Sodexo (the Agreement). The Agreement provisions examined during the audit included control over vendor selection, use of Memorial's and Sodexo's group purchasing agreements and the procurement of food, beverages, merchandise and supplies.

Memorial's original Management Agreement with Sodexo was executed in October 2001. Since that time, there have been many amendments to the Agreement including expanding services to Memorial's North Campus. During June 2009, all Nutrition Services employees were removed from Memorial's payroll and became employees of Sodexo.

The Office of the City Auditor (OCA) conducted an audit of Memorial's cafeteria internal controls during 2008. See published report dated September 3, 2008, 08-13-Memorial Health System Cafeteria Internal Controls. There were no findings or recommendations noted in the report. The objective of that audit was to evaluate the internal control environment as it related to the operation of the hospital cafeteria, which included an evaluation of the adequacy of policies and procedures in place to ensure proper safeguarding of hospital assets.

We conclude that overall, both Memorial and Sodexo were in material compliance with the provisions of the Management Agreement reviewed. However, during the course of our audit, we identified one area to be explored for possible improvement, which is explained in the attached report.

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

Sincerely,

Denny Nester  
Interim City Auditor

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cc: Dr. Larry McEvoy II, Chief Executive Officer  
Mike Scialdone, Chief Financial Officer  
John Foss, Vice President Support Services  
Tracy Narvet, Controller  
John Wyckoff, Compliance Officer  
Debbi Oleson, Sodexo District Manager  
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## Table of Contents

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# 10-21 – MEMORIAL HEALTH SYSTEM SODEXO LIMITED CONTRACT REVIEW

## PUBLIC REPORT

	Page
Introduction	
Authorization .....	2
Organizational Placement .....	3
Scope and Methodology .....	3
Background .....	3
Overall Opinion .....	4
 Opportunity for Improvement	
1. Memorial Health System should perform an analysis to determine if purchasing merchandise and supplies directly from vendors would result in cost savings by eliminating sales taxes paid for these items .....	5

### Abbreviations and Acronyms used in the Report

Memorial	Memorial Health System
OCA	City of Colorado Springs, Office of the City Auditor
Sodexo	Sodexo America, LLC
The Agreement	Management Agreement between Memorial and Sodexo

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## Introduction

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### AUTHORIZATION

We performed an audit of Memorial Health System's (Memorial) Management Agreement with Sodexo America, LLC (Sodexo). The audit period covered the six months ended June 30, 2009. 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, 705, 706, Part 709 (B) and (C), in addition to Chapter 13, Article 1, and 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.

#### 1.2.705: 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.

#### 1.2.709: MAKE PERIODIC REPORTS TO COUNCIL:

The City Auditor shall make period reports to Council which shall include the following:

- B. Information of proposals deemed expedient in support of the City's credit, and recommendations for lessening expenditures, for promoting frugality and economy in City affairs and for an improved level of fiscal management;
- C. Matters concerning the effectiveness and efficiency of the programs and operation of the City;

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## Introduction

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### 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 Health System.

### 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 this audit was to review and ensure compliance with certain provisions of the Management Agreement between Memorial and Sodexo (the Agreement). The Agreement provisions examined during the audit included control over vendor selection, use of Memorial's and Sodexo's group purchasing agreements and the procurement of food, beverages, merchandise and supplies. The audit period covered the six months ended June 30, 2009.

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

Memorial's original Management Agreement with Sodexo was executed during October 2001. Since that time, there have been many amendments to the Agreement including expanding services to Memorial's North Campus. During June 2009, all Nutrition Services employees were removed from Memorial's payroll and became employees of Sodexo. Sodexo is a leading integrated food and facilities management services company in the United States, Canada and Mexico, with \$7.7 billion in annual revenue and 120,000 employees. Sodexo serves more than 10 million customers daily in corporations, health care, long term care and retirement centers, schools, college campuses, government and remote sites.

The City of Colorado Springs, Office of the City Auditor (OCA) conducted an audit of Memorial's cafeteria internal controls during 2008. See published report dated September 3, 2008, 08-13-Memorial Health System Cafeteria Internal Controls.

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## **Introduction**

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There were no findings or recommendations noted in the report. The objective of that audit was to evaluate the internal control environment as it related to the operation of the hospital cafeteria, which included an evaluation of the adequacy of policies and procedures in place to ensure proper safeguarding of hospital assets.

### **OVERALL OPINION**

We conclude that overall both Memorial and Sodexo were in material compliance with the provisions of the Management Agreement reviewed. However, during the course of our audit, we did identify one area for improvement, which is detailed on the following page.

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## Opportunity for Improvement

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The following finding is presented in the context of City Code 1.2.709, which instructs the City Auditor to make periodic reports to Council which include “recommendations for lessening expenditures, for promoting frugality and economy in City affairs and for an improved level of fiscal management.”

- 1. Memorial Health System should perform an analysis to determine if purchasing merchandise and supplies directly from vendors would result in cost savings by eliminating sales taxes paid for these items.**

Memorial is a government entity exempt from paying taxes on most purchases. Any merchandise and supplies purchased directly by Memorial for its Nutrition Services operations are tax exempt. Merchandise and supplies purchased by Sodexo were taxable.

During the audit period, Sodexo purchased various merchandise and supplies for use in the performance of the service contract and those costs were reimbursed by Memorial according to the terms of the Agreement. For the six invoices we reviewed in detail, we noted that Sodexo passed through to Memorial sales tax in the amount of \$1,116. This amounted to less than 0.2% of the \$757,101 paid for these six invoices. While such a pass through of sales tax to Memorial was permissible according to the Agreement, Memorial could avoid paying taxes by purchasing the merchandise and supplies directly from the vendor.

***Auditor’s Recommendation:***

We recommend that Memorial consider purchasing supplies directly from vendors to reduce operating costs of Nutrition Services by utilizing its tax exempt status.

***Memorial’s Response:***

Memorial Health System agrees with the auditors' recommendation. The Health System performed an analysis of the purchasing of supplies prior to signing the contract with Sodexo. However, the Health System agrees that the methodology used for the purchasing of food supplies should be re-examined prior to signing any contract renewals or extensions.