



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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21-23 City of Colorado Springs and Colorado Springs Utilities Liability Claims and Workers' Compensation Reserve Funds Audit

November 2021

Purpose

The purpose of this audit was to review the Liability Claims and Workers' Compensation Reserve - Self Insurance Funds, as required by City Code. The City Auditor is required at least once every four years to determine that proper underwriting techniques, sound funding procedures, loss reserves, claims procedures, and accounting practices are being followed.

Highlights

We conclude that proper underwriting techniques, claims procedures, and accounting practices were followed in the management and operation of the Liability Claims and Workers' Compensation Reserve Funds. The City Code did not specify criteria for the City Auditor's review of loss reserves or funding. Therefore, our office could not review compliance against City Code requirements. During this audit, we identified two observations and one opportunity for improvement.

The City and Colorado Springs Utilities (Utilities) were self-insured for liability claims and workers' compensation. Liability claims included general, property, and automobile claims against the City and Utilities. City Risk Management Department members performed adjustment and paid claims utilizing claims processing software for the City and Utilities.

Per City Code, City reserve funds were required for liability and workers' compensation claims. Annual funding for Workers' Compensation and Liability Reserve Funds was recommended by City Administration and approved by City Council. The City General Fund was considered a backstop funding source for any claims that exceeded reserve balances.

The City and Utilities have purchased insurance from commercial carriers to mitigate potential losses from large workers' compensation and liability claims. Once a claim exceeded deductible thresholds, the claim was reimbursable under these policies.

An annual actuarial study was performed to determine the estimated liability to be recorded for current and potential claims. Actual funding and reserve balances were reported in the Annual Comprehensive Financial Report.

Management Response

Management was in agreement with our recommendations.

Observations

City Risk Management should:

1. Review City claims system user access for compliance with the City Information Technology (IT) Account Management policy.

Create user access templates by job title.

Re-evaluate access and remove access that is no longer needed.
2. Review segregation of duties related to claims system access and document compliance with Finance Administrative Regulation 2.3.

Opportunity for Improvement

1. City and Utilities management should propose updates of City Code Sections 1.5.502 and 1.5.602 to clearly specify fund reserve requirements.

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Observation 1

Users, including claims system vendor employees, had access to the City's claims system that was not appropriate for their job duties, as follows:

- User access was not appropriate for (13%) of City and claims vendor employees.
- We could not determine the level of access for (66%) of user accounts.
- The majority of users (80%) had not logged in to the system in 60 days or since the account was created.

Exception reports that might identify inappropriate changes made by users were not in place.

Access should be consistent with user roles and responsibilities through the principle of least privilege to protect the confidentiality, integrity, availability, and privacy of information. The City Information Technology (IT) Account Management Policy provided guidance to City Departments regarding access review, monitoring, and documentation requirements.

Management Response

Management agrees with this recommendation. The implementation of the claim system required multiple users and access to the claim system to ensure appropriate setup for the organization. Management is actively working to review and reduce the number of users while limiting existing access as appropriate and plans to complete this by January 1, 2022. Management anticipates completing this evaluation and exploring additional ways to monitor access by February 1, 2022.

Recommendation

City Risk Management should:

- Review the City IT Account Management Policy and create a procedure to ensure user access review is performed timely, review is documented and complies with policy requirements.
- Create user access templates based on job title.
- Re-evaluate the need for access for all users, particularly for claims system vendor employees, and remove unnecessary access.

Observation 2

Based on our review of user access, duties were not properly segregated for 19% of user accounts.

We reviewed access to claims processing software for proper segregation of duties to reduce the likelihood of unauthorized changes to claim files. Conflicting duties included the ability to both create and approve claim files. Additionally, claims processing employees could create the initial claim in the system.

City Finance Administrative Regulation 2.3 - Separation of Duties requires that responsibilities be assigned to individuals in such a way as to encourage checks and balances. For example, no one person should be able to prepare a transaction, approve, process, and then reconcile department records to the accounting system. In cases where duties cannot be adequately separated, mitigating controls can be put in place.

Management Response

Management agrees with the recommendation. Management has begun to review staff segregation of duties and/or add appropriate controls to ensure checks and balances are in place by March 31, 2022.

Recommendation

City Risk Management should:

- Review all claims system user access to ensure no one person is able to create, approve, and process claims and then reconcile department records to the accounting system.
- Document compliance with Finance Administrative Regulation 2.3 - Separation of duties.
- Identify and document any controls that mitigate segregation of duties risks.

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Opportunity for Improvement

The City Code Sections 1.5.502 and 1.5.602 contained ambiguous language. The requirement for adequate funding of Liability Claims and Workers' Compensation Reserve Funds was not well-defined.

Additionally, the requirement for City Auditor to review loss reserves was not well defined.

Annual funding was recommended by City Administration and approved by City Council. Actual funding and reserve balances were reported in the Annual Comprehensive Financial Report.

City Code did not specify criteria for the City Auditor's required review of loss reserves. Therefore, our office could not specifically determine compliance.

Management Response

Management agrees with the recommendation. The Reserve Fund Committee is comprised of multiple departments including the City Auditor. This committee meets annually to monitor the fund balance. Management will work with City Leadership to determine when this language would be appropriate to update and if revision is warranted. Management will work with Utilities management on proposed revisions.

Recommendation

City and Utilities management should propose City Code updates to City Council to clarify Sections 1.5.502 and 1.5.602. Proposed City Code revisions should clearly specify fund reserve and audit requirements for both the City and Colorado Springs Utilities.

This audit was conducted in conformance 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.