



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

14-04  
City of Colorado Springs and  
Colorado Springs Utilities  
Claims Reserve and  
Workers' Compensation Funds

February 2014



# OFFICE OF THE CITY AUDITOR

## COLORADO SPRINGS, COLORADO

### 14-04 City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

February 2014

#### **Purpose**

The purpose of this audit was to review the General Liability Claims Reserve and Workers' Compensation Self Insurance Funds to determine whether proper underwriting techniques, sound funding procedures, loss reserves, claims procedures, and accounting practices were being accomplished in a prudent and reasonable manner.

#### **Highlights**

We concluded proper underwriting techniques, claims procedures, and accounting practices were followed in the management and operation of the General Liability Claims Reserve and Workers' Compensation Funds. Claims funding procedures were considered adequate for Colorado Springs Utilities. While City Workers' Compensation funding procedures were considered adequate, City General Liability Claims funding procedures could be improved.

The City General Liability Fund balance will not be adequate to cover payment of an average year's claims activity, and was not considered adequately funded at December 31, 2012.

During the course of our audit, we identified five areas in which we believe internal control could be strengthened along with two opportunities for improvement.

The City of Colorado Springs (City) and Colorado Springs Utilities were both self-insured for Workers' Compensation and General Liability Claims. General Liability Claims included property and automobile claims by the public against

*(Continued on page 2)*

#### **Management Response**

Management generally agrees with the observations and recommendations in this report. Please see the report body for their detailed responses.

#### **Recommendations**

1) The City should consider increased contributions as recommended by the City Claim Reserve Fund Committee. Additionally, all claim payments should be recorded through the Reserve Fund to better identify claims expenditures.

2) Risk Management should engage a third party adjustor for all claims submitted by a member of the Risk Management staff.

3) The Risk Manager should not administer user access in the claims processing system.

4) City Risk Management should work with City IT to update the terms and conditions of the claims processing software vendor contract, to include a requirement to provide a third party data processing security report.

5) The City Budget Office and Risk Management should work together to provide support for

*(Continued on page 2)*

# 14-04 City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

February 2014

*(Highlights continued from page 1)*

the City and Colorado Springs Utilities. As required by statute, reserve funds were created for Workers' Compensation claims. In addition, the City created a reserve fund for General Liability Claims, while Colorado Springs Utilities elected to pay claims when incurred.

The General Liability Claims Reserve Fund balance, before deducted reserves for outstanding claims, declined from \$1,543,835 at December 31, 2010, to \$430,310 at December 31, 2012. After deducting reserves for outstanding claims, a negative fund balance of (\$231,856) existed at December 31, 2012.

*(Recommendations continued from page 1)*

the claims administration costs allocated to Colorado Springs Utilities.

## **Opportunities for Improvement**

- 1) Risk Management should log all complaints with the implementation of the complaint tracking spreadsheet.
- 2) City Council could consider revising the City Code provision that requires the City Auditor to examine the Workers' Compensation and Claims Liability Fund at least once every two years.



# Office of the City Auditor

## City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Fund

---

Date: February 28, 2014

To: President King, President Pro-Tem Bennett, and Members of City Council

Re: 14-04 City of Colorado Springs & Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds Audit

We conducted an audit of the City of Colorado Springs (City) and Colorado Springs Utilities General Liability Claims Reserve and Workers Compensation Self Insurance Funds. Our audit focused on the period from January 1, 2011 through December 31, 2012.

The purpose of this audit was to review the General Liability Claims Reserve and Workers' Compensation Self Insurance Funds to determine whether proper underwriting techniques, sound funding procedures, loss reserves, claims procedures, and accounting practices were being accomplished in a prudent and reasonable manner.

We concluded proper underwriting techniques, claims procedures, and accounting practices were followed in the management and operation of the General Liability Claims Reserve and Workers' Compensation Funds. Workers' Compensation Claims funding procedures were considered adequate for both the City and Colorado Springs Utilities.

We considered General Liability Claims funding procedures and liabilities accrued adequate for Colorado Springs Utilities. However, the City General Liability Fund balance will not be adequate to cover payment of one year's claims activity, and was not considered adequately funded at the time of our audit.

During the course of our audit, we identified five areas in which we believe internal control could be strengthened along with two opportunities for improvement. These areas are detailed in the following pages.

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

Sincerely,

A handwritten signature in black ink that reads "Denny Nester".

Denny Nester, MBA, CPA, CIA, CFE, CGFM, CGAP  
City Auditor

cc:

Steve Bach, Mayor

Laura Neumann, Chief of Staff, City of Colorado Springs

Kara Skinner, Chief Financial Officer, City of Colorado Springs

Mike Sullivan, Director, Human Resources, City of Colorado Springs



## City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

---

Victoria McColm, Risk Manager, City of Colorado Springs  
Joe Palmer, Chief Information Officer, City of Colorado Springs  
Jerry Forte, Chief Executive Officer, Colorado Springs Utilities  
Bill Cherrier, Chief Planning and Financial Officer, Colorado Springs Utilities,  
Dede Jones, General Manager, Financial Services, Colorado Springs Utilities  
Dave Maier, Manager, Enterprise Risk Management, Colorado Springs Utilities  
Patricia Van Meter, Lead Analyst, Enterprise Risk Management, Colorado Springs Utilities



# Office of the City Auditor

## City of Colorado Springs and Colorado Springs Utilities

### Claims Reserve and Workers' Compensation Fund

---

Report Details .....	1
• Purpose and Scope.....	1
• Background .....	1
• Commendable Practices .....	3
• Conclusion.....	4
Observations, Recommendations and Responses.....	5
• Observation 1 - The City of Colorado Springs Claims Reserve Fund balance at December 31, 2012, was not adequate to cover expenses for an average year. ....	5
• Observation 2 - Policy requiring an independent adjuster was not followed for one risk management employee claim.....	6
• Observation 3 - The Risk Manager should not have the ability to administer user access.....	7
• Observation 4 - The claims processing vendor contract was not current and did not require a third party information security report .....	8
• Observation 5 – Supporting data was not readily available for allocated risk management costs ..	9
Opportunities for Improvement.....	10
• Opportunity 1 - A formal process for tracking complaints was not in place.....	10
• Opportunity 2- The code requirement for audit review frequency has not been evaluated recently .....	11
Attachments .....	12
• Appendix A – Workers' Compensation and General Liability Claims Trend data .....	12



## Office of the City Auditor City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

### REPORT DETAILS

#### PURPOSE AND SCOPE

We performed an audit of the City of Colorado Springs and Colorado Springs Utilities General Liability Claims Reserve and Workers' Compensation Funds. The purpose of the audit was to evaluate the adequacy of existing underwriting techniques, funding procedures, loss reserves, claims procedures and accounting practices in the management and operations of the Claims Reserve and Workers' Compensation Funds. We evaluated whether these processes were functioning as intended and enabled the organizations to meet their objectives and goals.

The scope of the audit included review of the claims handling process, evaluation of the control environment and internal controls in place, and verification that adequate loss reserves and funding existed. We reviewed the reliability of the data recorded in the claims processing system through reconciliation of the payments in the City's financial reporting system. Our audit covered the period from January 1, 2011, through December 31, 2012.

To accomplish our audit objectives, we reviewed departmental policies and procedures and obtained an understanding of the internal control structure for claims management. We reviewed City and Colorado Springs Utilities' Claim Reserve Fund Committee reports to analyze the adequacy of funding for both General Liability and Workers' Compensation claims. In addition, we interviewed management and staff, analyzed trends, reviewed State of Colorado Workers' Compensation audit reports and performed tests as considered necessary.

#### BACKGROUND

The City of Colorado Springs (City) and Colorado Springs Utilities were both self-insured for Workers' Compensation and General Liability Claims. General Liability claims included property and automobile claims by the public against the City and Colorado Springs Utilities. As required by statute, reserve funds were created for Workers' Compensation claims. In addition, the City created a reserve fund for general liability claims, while Colorado Springs Utilities elected to pay claims when incurred.

Significant oversight of the Workers' Compensation program was performed by the Colorado Department of Labor and Employment through regular audits. Based on our risk assessment, we placed more audit emphasis on review of general liability claims processes, which were not regularly reviewed by external agencies.

#### City Code References

Under City Code 1.5.501, City Council "recognized self-insurance and self-insured retention was a viable means to assure protection at the least cost to protect the City and its employees against claims brought under the provisions of the Colorado Governmental Immunity Act and arising under Federal law." The



## Office of the City Auditor City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

---

City Council created a reserve fund to pay general liability and automobile liability claims to cover the actual expenses realized in any one year. Under City Code 1.5.602 City Council “created the Workers’ Compensation Fund for the purpose of enabling the City to meet its statutory workers’ compensation obligations under the rules governing the issuance of self –insurance permits.”

The City Code also required the City Auditor to perform a review of the General Liability Claims fund and Workers Compensation funds at least once every two years. Our prior audit period for these Funds was January 1, 2009, to December 31, 2010.

Under City Code section 1.5.503, the City Risk Manager was authorized to settle liability claims under \$50,000. Settlements between \$50,000 and \$100,000 were approved by a Claims Review Board. This Board consisted of the Mayor for claims against the City, Colorado Springs Utilities Executive Director for claims against Colorado Springs Utilities, as well as, directors or affected managers. Claims with a proposed settlement amount that exceeded \$100,000 were required to have City Council approval. Claims Reserve Fund guidance developed by the Claims Reserve Funding Committee stated adequate funding “should be protective and provide assurance that the claim payments can be made in any given year.”

### City Risk Management Department

The City of Colorado Springs Risk Management office was responsible for the administration of the City’s and Colorado Springs Utilities’ self-insurance programs for General Liability, Automobile Liability and Workers’ Compensation claims. The Risk Management office was organized into two sections: General Liability and Workers’ Compensation. During our audit period, the Risk Manager and Risk Supervisor positions had been vacant and responsibilities had been performed by the Acting Risk Manager. In April 2013, the Risk Supervisor position was filled, and a Risk Manager was selected.

Annually, a designated funding committee met with the Risk Manager as well as an independent actuarial consultant and determined the adequate needs of each of the reserve funds.

In 2011, there were 897 General Liability claims and 437 Workers’ Compensation claims filed against the City and Colorado Springs Utilities. The City and Colorado Springs Utilities paid \$1,355,912 in General Liability claims and \$6,580,724 in Workers’ Compensation claims.

In 2012, General Liability and Workers’ Compensation claims were 734 and 386, respectively. The City and Colorado Springs Utilities paid \$1,169,882 in General Liability claims and \$6,452,801 in Workers’ Compensation claims. The General Liability claims expense does not reflect the payment of one unusual claim of \$3.4 million paid from the General Fund.

Since 2010, the total number of claims has trended downward for both the City and Colorado Springs Utilities. See figure 1 in Appendix A. Since 2009, Workers’ Compensation and General Liability claim expenditures have declined for Colorado Springs Utilities. City Workers’ Compensation expenditures





## Office of the City Auditor City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

increased 11.5% since 2009. City General Liability claims trended downward since 2009 with the exception of one large claim paid in 2012. See figure 2 in appendix A.

### Financial Structure of the Workers Compensation Programs:

To fund the City and Colorado Springs Utilities Workers' Compensation programs, the City and Colorado Springs Utilities directed monies, as recommended by the Funding Committees, to Internal Service Funds. Funding was provided through payroll charges based upon job classification codes set by the National Council on Compensation Insurance (NCCI), with a greater amount charged for positions with greater risk of injury.

These rates were set to contribute to the fund an amount projected to be adequate to cover the actual expenses of that year. City Enterprises and Support Service Funds that received services paid an additional allocated charge for indirect costs.

Per Code of Colorado Regulations 1101.4, organizations that administered their own Workers' Compensation programs were required to have excess insurance policies for large claims. Since 2004, the City has maintained an excess insurance policy covering any claim over \$750,000 for both the City and Colorado Springs Utilities.

### Financial Structure of the General Liability Programs:

City Enterprises and Support Service Funds that utilized services for General Liability claims also paid an allocated charge for Risk administration.

Unlike Workers' Compensation, the City of Colorado Springs had not purchased excess general liability insurance. Instead, the organization relied on immunity protection under the Colorado Governmental Immunity Act. The Act limits damages to \$350,000 for an individual person per single occurrence and \$990,000 for multiple persons per single occurrence. These amounts were recently adjusted as of July 1, 2013. Prior limits were \$150,000 for an individual person per single occurrence and \$600,000 for multiple persons per single occurrence. Excess insurance coverage for General Liability claims was purchased by Colorado Springs Utilities for claims exceeding \$500,000.

### COMMENDABLE PRACTICES

- The average time to process General Liability Claims was reduced from 71 days in 2012 to 16 days in 2013.
- Risk Management selected a new insurance broker with extensive public entity experience through a competitive process in 2012, which provided more comprehensive coverage at less cost. Annual savings under the new program were \$150,000.



## Office of the City Auditor City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

---

### CONCLUSION

We concluded proper underwriting techniques, claims procedures, and accounting practices were generally followed in the management and operation of the General Liability Claims Reserve and Workers' Compensation Funds.

Workers' Compensation Claims funding procedures were considered adequate for both the City and Colorado Springs Utilities. We considered Colorado Springs Utilities' General Liability Claims funding procedures and liabilities accrued adequate. However, the City General Liability Fund balance will not be adequate to cover payment of one year's claims activity, and was not considered adequately funded at the time of our audit.

During the course of our audit, we identified five areas in which we believe internal control could be strengthened, as well as, two opportunities for improvement. These areas are detailed in the following pages.



## Office of the City Auditor City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

### OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

#### OBSERVATION 1 - THE CITY OF COLORADO SPRINGS CLAIMS RESERVE FUND BALANCE AT DECEMBER 31, 2012, WAS NOT ADEQUATE TO COVER EXPENSES FOR AN AVERAGE YEAR.

- The General Liability Claims Reserve fund balance declined from \$1,543,835 at December 31, 2010, to \$430,310 at December 31, 2012. See figure 3 in appendix A. After deducting reserves for outstanding claims, a negative fund balance of (\$231,856) existed at December 31, 2012.
- The City Funding Committee recommended increasing contributions to \$800,000 for the 2014 budget year. The 2014 budget was approved for \$1 million.

The annual general fund contribution to the Liability Reserve Fund was \$500,000 for 2007 through 2012. Expenditures from the reserve fund exceeded contributions nearly every year since 2003. As a result, the General Liability fund balance declined from \$2.7 million in 2003 to \$430,310 in 2012. With the downward trend of the fund balance, the \$500,000 annual contribution could be inadequate to pay current year claims. Any additional claim payments would be paid from the General Fund.

The City was required under City Code to maintain a reserve fund so that in any year, expenses could be paid if contributions to the claims reserve fund from other funds were not adequate. This reserve fund for potential losses was intended to prevent budget impacts resulting from higher than expected claims in a particular year.

The following was noted during our review:

- Sufficient funds were not available in the 2012 General Liability Claims Reserve Fund to pay an unusual claim in the amount of \$3.47 million. This payment was made from the General Fund and was not included in Claims Reserve fund expenditures.
- The Colorado Governmental Immunity Act limits increased from \$150,000 to \$350,000 for any one injury in a single occurrence and from \$600,000 to \$990,000 for injuries to two or more persons in any single occurrence. This could increase potential claims liability.

#### AUDITOR'S RECOMMENDATION

The City should maintain increased contributions as recommended by the City Claim Reserve Fund Committee.

Risk Management and City Finance should record all claim payments through the General Liability Claims Reserve Fund to better identify claims expenditures.

#### CITY OF COLORADO SPRINGS RESPONSE

Risk Management and City Finance agree with the recommendation. The large claim settlement is reflected in Risk Management's database and is included in our claim reporting to actuaries, etc.



Office of the City Auditor  
City of Colorado Springs and Colorado Springs Utilities  
Claims Reserve and Workers' Compensation Funds

---

OBSERVATION 2 - POLICY REQUIRING AN INDEPENDENT ADJUSTER WAS NOT FOLLOWED FOR ONE RISK MANAGEMENT EMPLOYEE CLAIM

- City Risk Management investigated and adjusted a Workers' Compensation claim for a Risk Management employee in 2012.
- Risk Management policies required third party adjustment of any claims for Risk Management staff.

Workers' Compensation claims for 2012 included an \$8,263 claim for a Risk management staff person. The claim was investigated and adjusted within the Risk Management office.

Third party adjustment was required for any claims filed by a member of the Risk Management office staff to avoid any possible conflicts of interest in the claims handling process. Risk Management indicated policy was not followed to avoid incurring third party adjustor fees and because the claim was considered minor.

#### AUDITOR'S RECOMMENDATION

Risk Management should engage a third party adjustor for all claims submitted by a member of the Risk Management staff.

#### CITY OF COLORADO SPRINGS RESPONSE

Risk Management agrees with the recommendation and will formalize our arrangement with an outside adjusting firm to handle claims filed by Risk Management staff.



## Office of the City Auditor City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

---

### OBSERVATION 3 - THE RISK MANAGER SHOULD NOT HAVE THE ABILITY TO ADMINISTER USER ACCESS

- The Risk Manager had system administrator access which could have allowed the ability to perform all aspects of claims processing.

A member of the Risk Management staff was assigned primary system administration duties in the claim processing system. However, the Risk Manager also retained certain system administrator permissions in the system. The Risk Manager was responsible for review and oversight of the claims process on behalf of the City, such as approval of reserves and payment disbursements.

The Risk Manager's system administration access could allow the manager to change permissions and both create and approve an improper claim. Mitigating controls were in place that would help identify an improper claim. However, controls would be improved if the Risk Manager could not change user accesses.

We noted that since our previous audit, improvements had been made in restricting the Risk Manager's access in the Claims Processing System. For example, the Risk Manager no longer had the ability to add payment requests. However, with user access change permissions, the Risk Manager could change their user access profile at any time.

Prior to the issuance of this report the user access permission was removed from the Risk Manager's access.

#### AUDITOR'S RECOMMENDATION

The Risk Manager should not administer user access in the claims processing system.

#### CITY OF COLORADO SPRINGS RESPONSE

Risk Management disagrees with observation, but in the interest of eliminating any perception of impropriety has complied with the recommendation. Risk Management has several mitigating controls in place that would uncover an improper claim and payment. Risk Management has, at least, three layers of review that do not include the Risk Manager that would identify a questionable claim and associated payments.



## Office of the City Auditor City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

---

### OBSERVATION 4 - THE CLAIMS PROCESSING VENDOR CONTRACT WAS NOT CURRENT AND DID NOT REQUIRE A THIRD PARTY INFORMATION SECURITY REPORT

- A Service Organization Control Report (SOC II) providing assurance that information security controls were in place was not available from the vendor, or required by contract.
- A current signed contract was not in place at the time of our review to ensure pricing, terms and conditions were documented.

Claims were processed using a web-based system hosted by a software vendor. Vendors processing data via the web should provide a report from a third party on information security and data processing controls, known as Service Organization Control (SOC) reports. These reports provide assurance that the web hosting vendor had adequate controls related to security, disaster recovery, protection of sensitive personal information, processing integrity, and privacy of the data processed.

We noted in our last audit report dated September 5, 2012, the applicable SOC II report had not been obtained by Risk Management. The vendor was still in the process of obtaining a third party SOC II audit, and expects to obtain the report at the end of second quarter 2014.

As noted in the previous audit, the software vendor contract was effective in 2005 for a five year term, but had not been renewed or extended. City Information Technology (IT) involvement in the contract renewal or extension process would help ensure compliance with data processing standards.

#### AUDITOR'S RECOMMENDATION

City Risk Management should:

- Work with City IT to update the terms and conditions of the claims processing software vendor contract, to include a requirement to provide a third party data processing security report.
- Require the vendor to provide assurance that data processing controls are in place as the third party information security (SOC II) report was not yet available.

#### CITY OF COLORADO SPRINGS RESPONSE

Risk Management agrees with this recommendation. We are working with IT and the vendor to develop a new contract. We will include the requirement for the SOC 2 report in the contract.



## Office of the City Auditor City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

### OBSERVATION 5 – SUPPORTING DATA WAS NOT READILY AVAILABLE FOR ALLOCATED RISK MANAGEMENT COSTS

- Calculation methodology and related support was not readily available to City Risk Management or Colorado Springs Utilities.
- Both City and Colorado Springs Utilities Risk Management employees stated they believed administrative costs allocated to Colorado Springs Utilities were reasonable.

City Risk Management administered General Liability and Workers' Compensation claims on behalf of Colorado Springs Utilities. Colorado Springs Utilities paid an annual fee to the City for these risk management services. These administrative costs were calculated by the City Budget Department, and included both direct and indirect costs using an allocation methodology.

In our review, we determined the allocation process was calculated using input from several City departments, including Risk Management, the City Budget office, and an outside consultant. However, cost allocation data was not available to Risk Management and Colorado Springs Utilities. A more detailed cost analysis would assist Colorado Springs Utilities with cost analysis, planning, and budgeting.

#### AUDITOR'S RECOMMENDATION

The City Budget Office and Risk Management should work together to provide support for the claims administration costs allocated to Colorado Springs Utilities.

#### CITY OF COLORADO SPRINGS RESPONSE

Risk Management agrees with this recommendation. Discussions with City Budget Office after the audit revealed that the information is available it just has not, historically, been provided to Risk Management. City Budget Office will, annually, send Risk Management a copy of Schedule A. We will review and provide a copy to Utilities Risk Management. Budget Office indicates that Schedule A is sent to many people in Utilities, so it has been available, just not communicated effectively to all interested parties. We received a copy of Schedule A February 14, 2014, and shared it with Utilities contacts.



## Office of the City Auditor City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

### OPPORTUNITIES FOR IMPROVEMENT

#### OPPORTUNITY 1 - A FORMAL PROCESS FOR TRACKING COMPLAINTS WAS NOT IN PLACE

- Due to the small number of complaints each year, complaints were noted only in the claim file. No formal process was in place to log and track complaints related to the claims administration process.
- Risk Management Policy Claims Service Standards required formal logging of complaints.

City Risk Management's Claim Service Standards policy stated:

*"Complaint Handling Procedures - All complaints will be handled in a prompt and responsive matter. Complaints will be logged in and registered. If a trend is noted, remedial action will be taken."*

Formal complaint logging and tracking helps to ensure customer service standards are maintained and claim processing is effective. During our review, Risk Management stated that a claims tracking spreadsheet had been developed. We also noted that Risk Management conducts regular surveys to obtain customer feedback.

#### AUDITOR'S RECOMMENDATION

Risk Management should log all complaints with the implementation of the complaint tracking spreadsheet.

#### CITY OF COLORADO SPRINGS RESPONSE

Risk Management agrees with this recommendation, in part. Risk Management has several mechanisms in place to accept and track complaints. We have two surveys that are sent to injured workers who file workers' compensation claims. One survey is required by the state, the other survey has been in place for many years. Complaints related to liability claims are generally related to the claim outcome and are part of the claim file. All complaints are responded to in an appropriate manner.

Risk Management will consolidate these various methods of tracking complaints into one log kept by the Claims Supervisor.

We also have a link to an electronic customer service survey. Any negative feedback received from that survey is addressed by the Risk Manager and is a performance management tool.





## Office of the City Auditor City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

### OPPORTUNITY 2- THE CODE REQUIREMENT FOR AUDIT REVIEW FREQUENCY HAS NOT BEEN EVALUATED RECENTLY

- City Code, last amended in 1994, requires the City Auditor to examine the Workers' Compensation and Claims Liability Fund at least once every two years.
- Internal and external oversight activities were in place to limit the risk associated with Workers' Compensation and General Liability Claims activities.

City Code requires the City Auditor to examine the Workers' Compensation and Claims Liability Fund at least once every two years to determine that proper underwriting techniques, sound funding procedures, loss reserves, claims procedures, and accounting practices are being followed. The Office of the City Auditor performs audits every two years in compliance with these Code requirements. Only one other City fund within the City has a similar requirement.

While this audit has been performed as specified, we noted the Colorado Department of Workers' Compensation also performed compliance based audits of proper underwriting techniques, loss reserves, and claims procedures. Additionally, Claims Funding Committees were in place to monitor claims and funding. The City Auditor attended these Committee meetings as a non-voting member. The external audit of the City's financial statements included a review of Risk Management accounting practices.

These internal and external oversight activities limited the risk associated with Workers' Compensation and General Liability Claims activities. If code requirements requiring audits every two years were changed, the City Auditor and the Audit Committee would have flexibility to determine the most effective use of Auditor resources.

#### AUDITOR'S RECOMMENDATION

City Council could consider revising the City Code provision that requires the City Auditor to examine the Workers' Compensation and Claims Liability Fund at least once every two years.

Possible scope and frequency for the City Auditor's review include a requirement to:

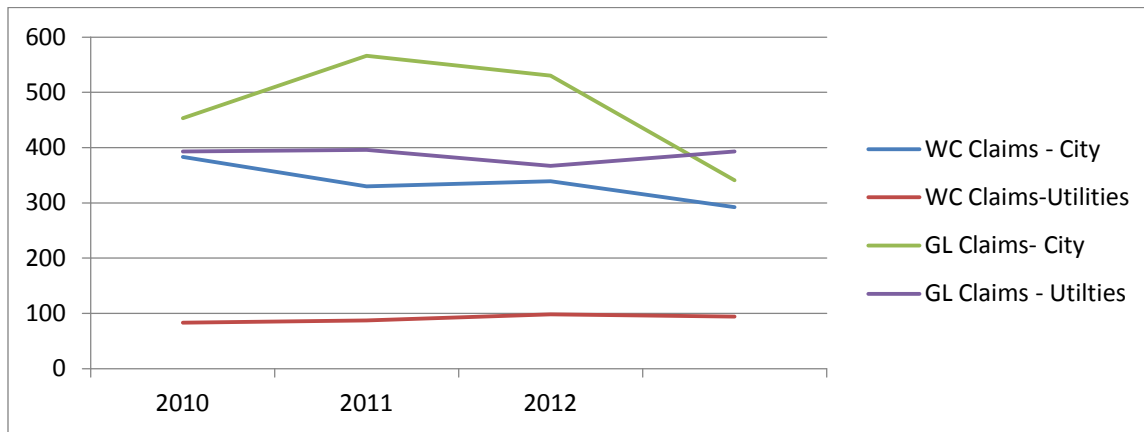
- Review of funding adequacy only.
- Perform a risk assessment and complete audit procedures as warranted.
- Revise the required frequency to every three to five years, consistent with other recurring audits.



ATTACHMENTS

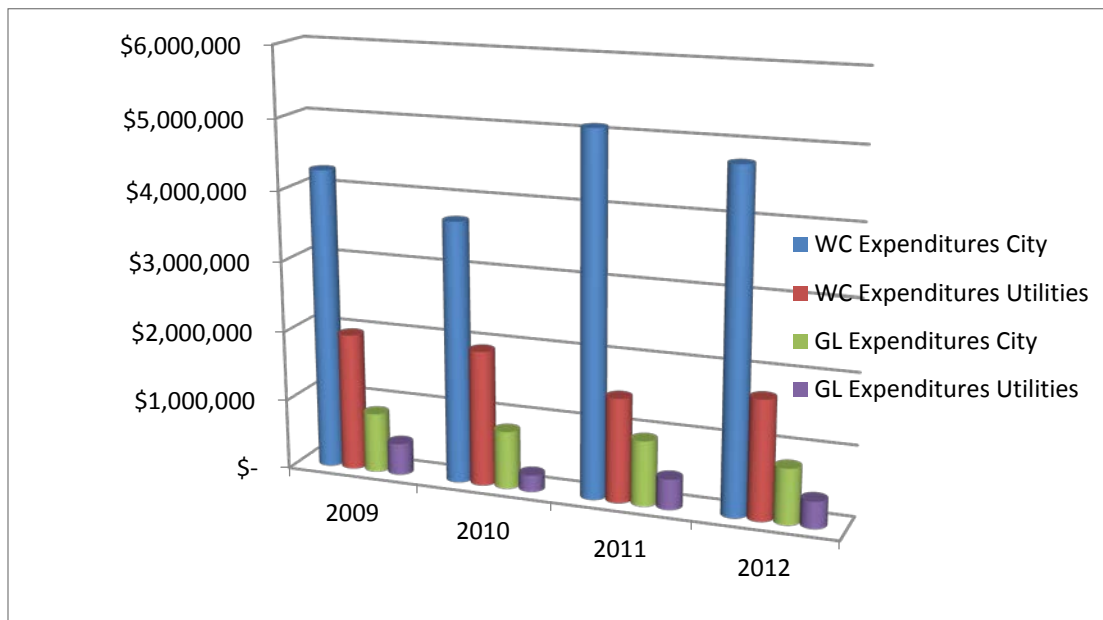
APPENDIX A – WORKERS' COMPENSATION AND GENERAL LIABILITY CLAIMS TREND DATA

**Figure 1: Number of Claims:** Since 2010, the total number of claims has trended downward:



Source: Risk Management Claims Liability and Workers' Compensation reports

**Figure 2: General Liability and Workers' Compensation Claim Expenditures:**



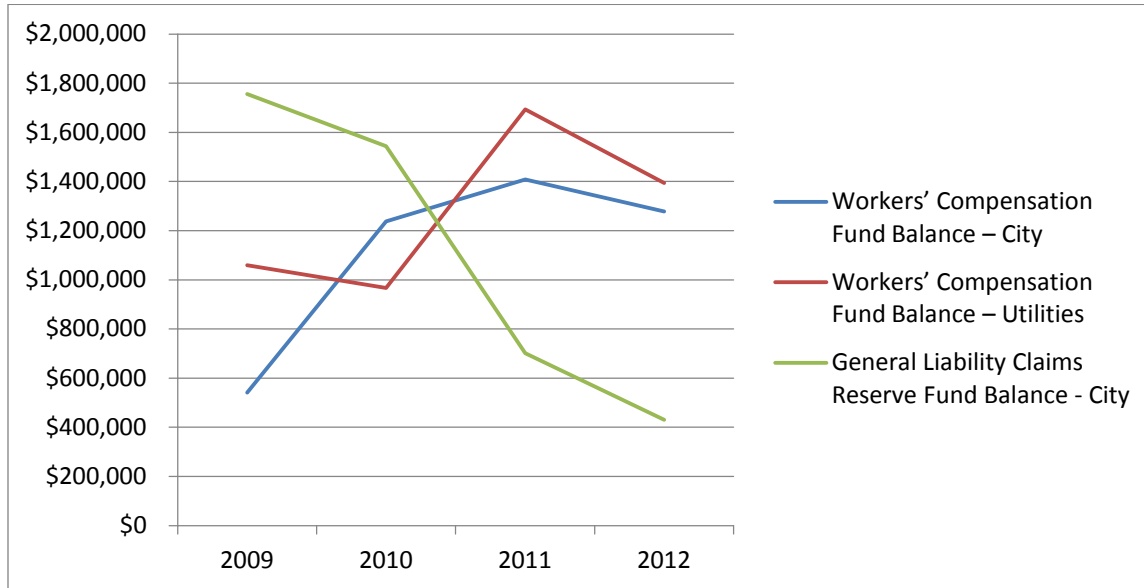
Source: 2013 City and Colorado Springs Utilities Claim Reserve Fund Report

Note: 2012 City General Liability Claim expenditures do not include one unusual claim in the amount of \$3.4 million paid from the General Fund.



## Office of the City Auditor City of Colorado Springs and Colorado Springs Utilities Claims Reserve and Workers' Compensation Funds

**Figure 3: Fund Balances:** The City and Colorado Springs Utilities maintain separate funds for Workers' Compensation claims. Generally, both Workers' Compensation claims funds appear to be adequate to pay the expenditures in any given year. The City maintains a General Liability claims reserve fund, but Colorado Springs Utilities pays claims as they occur. As shown in the chart below, the City's General Liability claims reserve fund has declined significantly in the past four years.



Source: 2013 City and Colorado Springs Utilities Claim Reserve Report

# CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

## **About our Office**

The mission of the Office of the City Auditor is to provide City Council with an independent, objective and comprehensive auditing program for operations of the City. Our auditing program includes:

- Evaluating the adequacy of financial controls, records and operations
- Evaluating the effectiveness and efficiency of organizational operations
- Providing Council, management and employees objective analysis, appraisals, and recommendations for improving systems and activities

The Office of the City Auditor is responsible for auditing the systems used by the City of Colorado Springs and its enterprises, including Colorado Springs Utilities. We perform a variety of audits for these entities, including financial audits, performance audits, contract audits, construction audits, and information system audits. We also perform follow-up on a periodic basis to monitor and ensure management actions have been effectively implemented.

## **Authorization and Organizational Placement**

Our audits are conducted under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706 of the Code. 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.

## **Audit Standards**

The audit was conducted in a manner that conforms 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 such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests. Sufficient competent evidential matter was gathered to support our conclusions.