



DATE: December 27, 2013

TO: Denny Nester, City Auditor
Michael Sullivan, Human Resources Director

FROM: Victoria McColm, Risk Manager *ufm*

SUBJECT: Biennial Claim Reserve Funds Audit

The 2013 biennial audit of the Liability and Workers' Compensation Claim Reserve Funds was recently completed. We appreciate the input and feedback we receive from the City Auditor's staff. I believe this audit, like past audits, did not result in any significant findings or any improprieties.

City Code¹ requires, for the Claim Reserve Funds that, "The City Auditor or any person authorized by the City Auditor shall conduct an examination at least once every two (2) years..." I understand the TOPS fund is the only other fund that has a similar requirement.

City Code² also states, "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, division, office, agency or account."

The Liability Claim Reserve Fund was established in 1986, the Workers' Compensation Fund in 1989. Both have been managed consistently according to the establishing documents. Initially, the funds were audited annually. In December 1993 City Auditor, J. R. Breeding, requested a change in City Code allowing for biennial audits and providing the City Auditor flexibility to audit other areas of concern within the City.

The workers' compensation program is regulated by the Colorado Division of Workers' Compensation and is subject to regular and frequent claim practices and reserve audits and annual financial reporting to renew the self-insurance permit.

The liability claims program does not have the same level of outside scrutiny, but does have significant internal scrutiny by Risk Management and our City/Springs Utilities stakeholders.

The City Auditor is a member of the Claim Reserve Fund Committee and will continue to have input regarding funding. Risk Management will make available any records requested to ensure the proper and effective administration of our duties.

I request City Code 1.5.502 and 1.5.602 be changed to allow the City Auditor to audit the Claim Reserve Funds periodically as the Auditor determines necessary consistent with City Code 1.2.704. This code change will provide the City Auditor the flexibility to determine the most effective use of Auditor resources.

Thank you.

¹ 1.5.502: Claims Reserve Fund: H., 1.5.602: Workers Compensation Claim Reserve Fund: I.

² 1.2.704: Make Periodic Reports to Council



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.

From: Bill Cherrier [mailto:bcherrier@csu.org]
Sent: Monday, March 31, 2014 9:49 AM
To: Nester, Denny; Maier, Dave (CSU); Jones, Dede (CSU); Van Meter, Patricia (CSU)
Subject: RE: Frequency of Workers' Comp and Liability Audit.

Denny,

It looks great. Good time to make the change.

Thanks, Bill

From: Dede Jones [mailto:ddjones@csu.org]
Sent: Tuesday, April 01, 2014 12:42 PM
To: Maier, Dave (CSU); Rowland, Jacqueline
Cc: Nester, Denny; DeGras, Janet
Subject: RE: Requesting your input on possible Ordinance Change

I concur and support the changes recommended.

Dede Jones | General Manager - Financial Services | Colorado Springs Utilities
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From: David Maier
Sent: Tuesday, April 01, 2014 7:49 AM
To: Jacqueline Rowland (City); Dede Jones
Cc: Denny Nester (City); Janet DeGras (City)
Subject: RE: Requesting your input on possible Ordinance Change

Denny/Jacqueline,

I support the changes, believe the current process and oversight are sufficient to move from 2 to 4 year reviews.

Thanks for the opportunity to comment.

Dave

From: Rowland, Jacqueline
From: Nester, Denny [mailto:dnester@springsgov.com]
Sent: Friday, March 28, 2014 5:16 PM
To: David Maier; Bill Cherrier; Dede Jones; Patricia Van Meter
Subject: Frequency of Workers' Comp and Liability Audit.

Dave, Bill, Dede, & Patricia,

Attached is a draft ordinance that was prepared at the direction of the Audit Committee—based on the recommendation in the recent audit report. Please let me know if you have any questions, concerns, or recommendations.

Denny L. Nester

City Auditor

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