



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

**06-274 – COLORADO SPRINGS UTILITIES'  
HEALTH CARE AND DEPENDENT CARE FLEXIBLE  
SPENDING ACCOUNTS AUDIT**

**PUBLIC REPORT**

**JULY 25, 2007**

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## Office of the City Auditor

### PUBLIC REPORT

Date: July 25, 2007  
To: Honorable Mayor and Members of City Council  
Subject: 06-274 – Colorado Springs Utilities' Health Care and Dependent Care Flexible Spending Accounts Audit

We have completed an audit of Colorado Springs Utilities' Health Care and Dependent Care Flexible Spending Accounts.

The purpose of the audit was to evaluate whether Colorado Springs Utilities was in compliance with laws as well as policies and procedures governing the plan year 2005.

Generally, we concluded Colorado Springs Utilities was in compliance with laws as well as company policies and procedures governing the audit period. We did not identify any areas of concern. The information reviewed was accurate and we observed adequate internal controls to ensure employee information was secure.

We appreciate the assistance that Springs Utilities' personnel gave us during this audit.

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: Jerry Forte, Colorado Springs Utilities, Executive Director  
Sandi Yukman, Integrated Resources Division, Officer  
Jeannie Brown, Continuous Improvement Department, Manager  
Diane Johnson, Human Resources Department, General Manager  
Karin Hollohan, Workforce Rewards, Manager  
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## Introduction

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### AUTHORIZATION

We performed an audit of Colorado Springs Utilities' Health Care and Dependent Care Flexible Spending Accounts. 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 and 706, 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.

### ORGANIZATION PLACEMENT

The Office of the City Auditor of Colorado Springs 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 was Colorado Springs Utilities (Springs Utilities), under the direction of their Chief Executive Officer. The Springs Utilities' Chief Executive Officer is also a City Council Appointee.

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## Introduction

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### SCOPE AND METHODOLOGY

The purpose of this audit was to review Springs Utilities' compliance with laws as well as policies and procedures which govern Health Care and Dependent Care Flexible Spending Accounts. The audit included the Benefit Plan Year January 1, 2005 through December 31, 2005, as well as transactions and activities related to the Plan Year 2005 that occurred during 2004 for enrollment for the 2005 Plan Year. We also audited periods in 2006 for filing claims and appeals to ensure they were handled appropriately in accordance with governing policies and that procedures were consistently followed.

The audit was conducted in a manner that met or exceeded the 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 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 using statistical sampling techniques.

### BACKGROUND

In the 1980's, the IRS Code was modified to allow employers to offer "Cafeteria Plans" to their employees. These Section 125 Cafeteria Plans allow employees to select from various benefits using pre-tax dollars. Two options that SU employees can choose are Health Care Flexible Spending Accounts and Dependent Care Flexible Spending Accounts.

The Health Care Spending Account allows employees to set aside pre-tax earnings to be used for qualifying medical, dental and/or vision expenses, which they or their dependents incur during a year. If the funds are not used for qualifying expenses, the employee forfeits the funds.

Similarly, Dependent Care Spending Accounts are for the costs of daycare for young children or other eligible dependents who meet the definition in IRS Code Section 152. Again, if the funds are not used for qualifying expenses, the employee forfeits the funds that were set aside.

### COMMENDABLE PRACTICES

During our review, we noted that accurate information was being maintained. We also noted that adequate internal controls were utilized to ensure employee information was secure.

### OVERALL CONCLUSIONS

Generally, we concluded that the policies and procedures of the Health Care and Dependent Care Flexible Spending Accounts were in compliance with Federal laws as well as governing company policies and procedures. No findings or suggestions for improvements were made.