



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

**10-01 MEMORIAL HEALTH SYSTEM –
KIDSKARE MANAGEMENT CONTRACT**

PUBLIC REPORT

JANUARY 21, 2010

Jeff Litchfield
City Auditor

Denny Nester, CPA CIA CGFM CFE CGAP
Assistant City Auditor

Roy Florey, CIA CISA
Principal Auditor





Office of the City Auditor

Public Report

Date: January 21, 2010

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

Re: 10-01 – Memorial Health System - KidsKare Management Contract

We performed an audit of the Memorial Health System (Memorial) contract with Bright Horizons Children's Centers LLC (Bright Horizons). Bright Horizons was contracted by Memorial during September 2008 to operate KidsKare, Memorial's childcare center. KidsKare provides childcare services for children of Memorial employees, physicians and volunteers as well as children from the Colorado Springs community.

The purpose of this audit was to review Memorial's and Bright Horizons' compliance with the contract. The audit period was September 15, 2008 through March 31, 2009.

We conclude that overall, Memorial and Bright Horizons were in compliance with the contract for the operation of KidsKare.

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: Dr. Larry McEvoy, Chief Executive Officer
Carlene Crall, Vice President Chief Human Resources Officer
Mike Scialdone, Chief Financial Officer
Tracy Narvet, Controller
Jason Fahrlander, Chief Operating Officer
Stephen Dreier, Bright Horizons Chief Administrative Officer

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE CGAP

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Abbreviations and Acronyms used in the Report

Bright Horizons	Bright Horizons Children’s Centers LLC
Memorial	Memorial Health System

Introduction

AUTHORIZATION

We performed an audit of the Memorial Health System (Memorial) contract with Bright Horizons Children's Centers LLC (Bright Horizons). The audit period was September 15, 2008 through March 31, 2009. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically part 703, which states:

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.

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 the audit was to review Memorial's and Bright Horizons' compliance with the contract for the operation of KidsKare, Memorial's childcare center. The audit period was September 15, 2008 through March 31, 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

Bright Horizons was contracted by Memorial during September 2008 to operate KidsKare, KidsKare provides childcare services for children of Memorial employees, physicians and volunteers as well as children from the Colorado Springs community. Bright Horizons was founded in 1986 and manages more than 600 child care centers for many of the world's leading corporations, hospitals, universities, and government agencies.

Introduction

According to Memorial's 2009 updated budget projection the operation of KidsKare is estimated to require a subsidization of \$370,000. The subsidization encompasses all costs to operate KidsKare including those costs paid directly by Memorial and by Bright Horizons net of all revenues received from its operations. For the eleven month period ended November 30, 2009 the actual KidsKare subsidization totaled approximately \$361,702.

OVERALL OPINION

We conclude that overall, Memorial and Bright Horizons were in compliance with the contract for the operation of KidsKare.