



Independent Audit Committee

City & County of Denver

Meeting Minutes

Thursday, December 17, 2015

Opening

Committee Chairman Auditor Timothy M. O'Brien, CPA, called the meeting to order.

Members Present

Vice-chairman Rudy Payan, Robert Bishop, Jack Blumenthal, Jeff Hart, and Edward Scholz were present. Leslie Mitchell was excused.

Also Present

Deputy Auditor Valerie G. Walling, Director of Audit Services Kip Memmott, and Committee staff Mollie Horne were also in attendance.

Approval of November 19, 2015 Minutes

The minutes were approved as written.

Briefing: Budget and Management Office Audit Report

Audit Supervisor Robyn Lamb, Lead Auditor Nancy Howe, Senior Auditor Ronald Keller, and Senior Auditor Jared Miller, along with Kip Memmott, presented the audit findings and recommendations. Budget Director Brendan Hanlon, Deputy Mayor and Chief Financial Officer Cary Kennedy, Chief Performance Officer David Edinger, and Controller Beth Machann were present on behalf of the Budget and Management Office (BMO) to respond to the audit.

The Audit Report was discussed, and the BMO staff were in agreement with the Audit Team's findings and recommendations, summarized below.

Recommendation 1.1

Establish a formal process to ensure that performance information is reliable. Specifically, BMO should:

- a. Require that agencies provide BMO with the supporting documentation for performance measures included in agency budget proposals. This support should include, at a minimum, the source of the data, any limitations or assumptions associated with the data or measures, and whether the data was validated by the agency and the process used to validate, if applicable.
- b. Develop a process to determine when to assess agency documentation for reliability. This could include establishing a risk-based approach that includes set criteria that would prompt the need for additional review and independent validation of the data.

Result – BMO agrees with this recommendation. Regarding *Recommendation 1.1.A*, when agencies submit performance data during the budget process, agencies will be required to fill out a form identifying the source of performance data and any limitations or assumptions associated with the performance data, in addition to whether the data was validated by the agency, as well as the process used to validate the data. Regarding *Recommendation 1.1.B*, during the budget cycle, BMO will select at least one performance measure from each agency to review and validate. Criteria will be created to prompt BMO to request additional inquiry of all agency performance measures if discrepancies are identified during the initial review process. The target date for implementation is April 2016, as part of the Annual Budget Instructions.

Recommendation 1.2

Enhance communication to all applicable agency personnel at the end of the budget process. In this communication, BMO could provide additional feedback regarding the reasons why budget requests were denied and whether performance measures submitted with a request could be enhanced or whether alternate or additional measures could be developed to better support a subsequent similar budget request.

Result – BMO agrees with this recommendation. At the end of the budget process, after funding decisions are finalized, BMO will provide a brief description explaining why a request was declined. For proposals that are declined due to inadequate performance information, BMO will provide an explanation on how the measures can be enhanced and whether or not new and/or additional performance measures will be needed to support future requests. The target date for implementation is October 2016.

Recommendation 2.1

In conjunction with other Department of Finance divisions, the Budget and Management Office should periodically assess the policy that establishes the unassigned general fund balance.

- a. As part of this assessment, BMO should identify best practices and should conduct an analysis of Citywide risks, which should take into account what other reserves are available to address some of those risks, and then ultimately determine the total dollar amount that is needed from the unassigned general fund balance to address remaining needs. Due to potential limitations in City resources and expertise, BMO should

determine whether this assessment is performed by internal resources or by utilizing an external source that is knowledgeable in this approach.

- b. After performing a risk-based assessment and establishing unassigned general fund balance reserves, the General Fund Reserve policy should be updated to communicate results of the risks identified and how they affected the determination of unassigned general fund balance.

Result – BMO agrees with this recommendation. An assessment will be completed in the first quarter of 2016 to identify potential risks to the City’s financial condition. The Department of Finance and BMO will use the findings from this assessment to recommend modifications to the City’s reserve policies as well as contingency and fund balance levels, if needed, based on the assessment as part of the 2017 budget. The target date for implementation is the 2nd Quarter of 2016.

Recommendation 2.2

In conjunction with other Department of Finance divisions, the Budget and Management Office should expand City General Fund Reserve Policy language to incorporate the usage of contingency reserves for purposes not clearly identified in the established criteria, such as foreseen expenditures not budgeted in the current year.

Result – BMO agrees with this recommendation. The Department of Finance and BMO will revise the City General Fund Reserve Policy language to incorporate contingency reserves uses to be administered towards foreseen expenditures not budgeted in the current year appropriation. The target date for implementation is September 2016, as part of the Proposed 2017 Budget.

Recommendation 2.3

The Budget and Management Office should develop a formal supplemental request process that includes a structured request document to ensure documentation is provided and retained to support the need and use of general fund contingency reserves.

Result – BMO agrees with this recommendation. BMO will develop a formal supplemental request form which will include an agency justification for additional budget above their current year appropriation. The target date for implementation is March 1, 2016.

Briefing: Rocky Mountain Human Services Audit Report

Audit Supervisor Dawn Wiseman, Lead Auditor Anna Hansen, Lead Auditor Carl Halvorson, and Senior Auditor Abby Musfeldt, along with Kip Memmott, presented the audit findings and recommendations. Executive Director Don Mares and Chief Operating Officer Jay Morein were present on behalf of the Denver Department of Human Services (DDHS) to respond to the audit. Shari Repinski, Interim Executive Director of Rocky Mountain Human Services (RMHS) was also present on behalf of the organization.

The Audit Report was discussed, and the DDHS staff were in agreement with the Audit Team's findings and recommendations, summarized below.

Recommendation 1.1

Allowable Costs – DDHS should amend the contract exhibit to specify what constitutes an allowable cost to restrict questionable spending of mill levy funds in the future.

Result – DDHS agrees with the recommendation. The Department recognizes that the broad budget categories that have been used in previous annual contract cycles have not provided sufficient granularity. As such, some of the expenditures highlighted in the audit as being questionable would have been allowable under the contract, even had the Department's monitoring efforts been in place at a level to identify such charges. The Department will work with RMHS to develop a more specific line item budget, aiming for it to be in place for the 2016 contract period. The target date for implementation is March 1, 2016.

Recommendation 1.2

Source Documentation – DDHS should request source documentation from RMHS to verify that expenditures were in compliance with contract terms. At a minimum, DDHS should verify that administrative costs do not exceed 15 percent on all future invoices, that executive salaries are properly classified as administrative expenses, that administrative expenses do not include fundraising expenses, and that mill levy funds are only funding communications and outreach expenses for Denver-based intellectual and developmental disability programs.

Result – DDHS agrees with the recommendation. The Department will request supporting documentation to verify that expenditures are in compliance with the contract terms. The Department will also verify that administrative costs remain within the threshold as set in the terms of the contract. Because the 15 percent cap on administrative costs is an annually negotiated term, the department will verify that such costs remain within the negotiated cap, at whatever level is applicable to the annual contract term. DDHS will also ensure that the terms of the contract more clearly define the allowable expenditures that can be attributed to the administrative cost categories covered by mill levy funds, limiting such costs to only those which support those with intellectual and developmental disabilities residing in Denver. The Department will implement the request for supporting documentation through its 2016 negotiated agreement with RMHS. The target date for implementation is April 1, 2016.

Recommendation 1.3

Residency Requirements – DDHS should work with the City Attorney's Office and RMHS to determine how to best address the residency requirements of Initiative 100.

Result – DDHS agrees with the recommendation. The Department will work with the City Attorney’s Office and RMHS to determine how best to address the residency language of Initiative 100. The Department and the City Attorney’s Office recognize that the issue of residency is complex: under certain circumstances, state rule and law require that a recipient of services provided by RMHS continue to receive those services from RMHS, even if the recipient relocates outside of Denver. The Department and City Attorney’s Office may opt to address some of the complexities through City Ordinance (see Recommendation 1.4). The target date for implementation is March 1, 2016.

Recommendation 1.4

Initiative 100 – DDHS should work with the City Attorney’s Office and City Council to determine whether the intent of Initiative 100 should be codified in City Ordinance and filed with the Office of the Clerk and Recorder.

Result – DDHS agrees with the recommendation. The Department recognizes that Initiative 100 was approved by voters more than ten years ago and acknowledges that the terms of the Initiative lack sufficient specificity in providing direction to the City regarding the administration of the mill levy proceeds. Further, the Department understands that other similar voter-approved taxes have been codified in ordinance in Denver. The Department and the City Attorney’s Office will work with the City Council to determine whether the intent of Initiative 100 should be codified in City Ordinance. Should the decision be made to codify it in City Ordinance, the Department will work with City Council and the City Attorney’s Office to ensure that the City has the flexibility within the Code to address any changes that might be necessary as federal and state laws affecting services to people with intellectual or developmental disabilities are adopted. The Department will implement this recommendation with a target date of April 1, 2016. The process to codify, should such a decision be made, may require extensive external comparative analysis with how other counties in Colorado allocate mill levy funds for services for individuals with intellectual and developmental disabilities, as well as collaborative work with City Council, the City Attorney’s Office, and the community, before being introduced for City Council consideration.

Recommendation 1.5

Update Contract – DDHS should address deficiencies in the RMHS contract by clarifying reporting requirements, such as annual reporting to City Council, and eliminating any outdated items, such as the local match and the Center for Training and Technical Assistance areas in the contract exhibit.

Result – DDHS agrees with the recommendation. The updated contract will clarify reporting requirements and eliminate outdated items. The current contract with Rocky Mountain Human Services expires December 31, 2017. The Department will consult with the City Attorney’s Office to determine whether the Mill Levy Agreement (MLA) between RMHS and the City and County of Denver requires amending or whether the City can clarify the terms through the contract’s 2016 exhibit. The timeline to implement the recommendation will be predicated on

whether the MLA requires amending or if the agreed-upon changes can be effectuated through the exhibit to the MLA. Should the MLA need to be amended, Denver City Council approval will be required, which could conceivably extend the timeline. The Department will work with the City Attorney's Office to determine which of the two alternatives to follow and will initiate pursuing the most appropriate alternative. The target date for implementation is March 1, 2016.

Recommendation 1.6

Monitoring – DDHS should monitor its contract with RMHS by reviewing, at a minimum, monthly financial statements and cash disbursements, and conduct quarterly cycle audits to understand how mill levy funds are utilized. In addition, DDHS should ensure that RMHS's Board of Directors is executing its fiduciary duty to ensure mill levy funds are spent according to the contract.

Result – DDHS agrees with the recommendation. The Department acknowledges that it has not adequately monitored the contract with RMHS, as found through the audit. The administrative burden to provide adequate monitoring, to the level recommended by the Office of the Auditor, exceeds the Department's current capacity and was not contemplated in the Department's 2016 budget. The Department will work with RMHS and the City Attorney's Office to carve out a small portion of the proceeds from the dedicated mill levy to support a lead auditor position to provide the full array of monitoring duties, including review of monthly financial statements and cash disbursements and the development and implementation of quarterly cycle audits. The Department will target April 1, 2016, to implement expanded monitoring, recognizing that the level of monitoring as recommended by the Office of the Auditor may not be fully implemented until a position has been created and filled to fulfill the job responsibilities.

Shari Repinski contributed additional comments on the audit. She reiterated that the first commitment of RMHS is service to its customers. When the RMHS financial crisis reached a critical point in the spring of 2015, the organization took immediate action. It reduced total expenses over the next several months by approximately 17%, bringing its expenses back in line with its revenues. This was achieved by reducing salaries, laying off some employees, and redesigning the benefits package. A number of benefits named in the report, such as reimbursement for internet expenses, were terminated immediately, even prior to the audit. RMHS now has a balanced budget. It has also created a finance committee in order to gather better information and advice on its short- and long-term financial situations. Ms. Repinski is confident that RMHS has moved from a place of crisis to a place of stability, and she acknowledges that there is still much work to be done.

Additional Discussion of Audit Committee Manual

Deputy Auditor Valerie Walling announced that there is a pending update to the Audit Committee Manual provided to Committee members earlier in the year. The City Charter directs the Audit Committee to receive, retain, and address complaints received regarding accounting, internal auditing controls, or auditing matters. The Auditor's Office is still evaluating how to

implement this provision. It may be that the process will be outsourced to a third party. At any rate, the December 1 date, cited in the manual for information on the complaint process to be posted on the Auditor's website, was premature. Once a procedure is established and implemented, Committee members will receive updated pages for their manuals.

The next Audit Committee meeting will be held on Thursday, January 21, 2015 at 9:00 a.m. in the Parr-Widener Community Room (#389) on the 3rd floor of the City and County Building at 1437 Bannock Street. **Please note the new starting time of 9:00 a.m.**

With no other business the Committee adjourned at 9:23 a.m.

Prepared by Mollie Horne, Audit Committee staff