The Auditor of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies for the purpose of ensuring the proper and efficient use of City resources and providing other audit services and information to City Council, the Mayor and the public to improve all aspects of Denver’s government. He also chairs the City’s Audit Committee.

The Audit Committee is chaired by the Auditor and currently consists of six members. The Audit Committee assists the Auditor in his oversight responsibilities of the integrity of the City’s finances and operations, including the integrity of the City’s financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

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Report number: A2015-011
AUDITOR'S REPORT

February 18, 2016

We have completed an audit of the Department of Environmental Health—Denver Health Operating Agreement. The purpose of the audit was to determine the operational and financial risks associated with the Department of Environmental Health’s (DEH’s) portion of the City’s Operating Agreement with Denver Health.

As described in the attached report, our audit revealed that DEH needs to coordinate with the Budget and Management Office (BMO) and other relevant City agencies to formally document which department should fund and provide financial and operational oversight for specific sections of the Operating Agreement, and the level of oversight required. Further, BMO should consider documenting a formal process for reviewing and approving Denver Health’s proposals for using surplus funds. BMO should also consider requesting annual follow-up information regarding how Denver Health used surplus funds to increase transparency and accountability regarding how taxpayer monies are used. Through stronger contract monitoring, DEH will be able to ensure improved reconciliation of Denver Health invoices with services provided. Also, by formalizing its process around approving the use of surplus funds, BMO will ensure greater transparency and visibility with regard to Denver Health’s use of surplus funds. Our report lists several related recommendations.

This performance audit is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, General Powers and Duties of Auditor, and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend appreciation to DEH, BMO, and the personnel who assisted and cooperated with us during the audit.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Our audit identified two main areas of concern in regard to the City’s Operating Agreement (Agreement) with the Denver Health and Hospital Authority (Denver Health). First, we found that DEH does not effectively monitor the services provided by Denver Health and its payments for these services. We also found gaps in the Budget and Management Office’s (BMO’s) process for approving and monitoring Denver Health’s use of surplus funds associated with the Agreement.

In regard to DEH’s monitoring of Denver Health services, we identified issues with DEH’s validation of services provided by Denver Health as well as its invoice review and approval process. First, we found that DEH does not receive the information necessary to validate that Denver Health provided all required services prior to making payments. For instance, DEH does not consistently receive supporting documentation with Denver Health invoices. Not only is this supplemental information necessary to allow DEH to verify that services were rendered prior to payment but the City’s fiscal accountability rules require supporting documentation to be provided with invoices. Also, DEH does not ensure that an end-of-year reconciliation is conducted for one section of the Agreement that involves estimate-based payments made in advance of services being provided. We also found that DEH’s monitoring of Denver Health’s performance is not adequate compared to best practices. Further, our review of Denver Health invoices from 2014 and 2015 uncovered several inconsistencies. Although DEH is responsible for approving invoices for certain sections of the Agreement, we identified several instances of non-DEH employees approving invoices. The City also overpaid Denver Health for costs related to the Park Hill Clinic; this overpayment was identified by BMO and later applied as a credit to the City.

Finally, BMO’s process of reviewing and approving Denver Health requests to use surplus funds associated with the Agreement could be improved. We found that BMO does not have documentation to demonstrate that it followed the appropriate approval process; furthermore, BMO does not validate that Denver Health used the funds consistent with the purpose(s) for which they were approved.

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Or contact the Auditor’s Office at 720.913.5000
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>TABLE OF CONTENTS</td>
<td>1</td>
</tr>
<tr>
<td>INTRODUCTION &amp; BACKGROUND</td>
<td>1</td>
</tr>
<tr>
<td>SCOPE</td>
<td>12</td>
</tr>
<tr>
<td>OBJECTIVE</td>
<td>12</td>
</tr>
<tr>
<td>METHODOLOGY</td>
<td>12</td>
</tr>
<tr>
<td>FINDING 1</td>
<td>14</td>
</tr>
<tr>
<td>The Department of Environmental Health Does Not Effectively Monitor</td>
<td>14</td>
</tr>
<tr>
<td>Services and Payments Associated with Its Provisions in the Operating</td>
<td></td>
</tr>
<tr>
<td>Agreement with Denver Health</td>
<td></td>
</tr>
<tr>
<td>RECOMMENDATIONS</td>
<td>22</td>
</tr>
<tr>
<td>FINDING 2</td>
<td>25</td>
</tr>
<tr>
<td>The Budget and Management Office Could Improve the Approval Process</td>
<td>25</td>
</tr>
<tr>
<td>for Surplus Funds and Increase the Visibility of Funded Projects</td>
<td></td>
</tr>
<tr>
<td>RECOMMENDATIONS</td>
<td>28</td>
</tr>
<tr>
<td>APPENDICES</td>
<td>29</td>
</tr>
<tr>
<td>Appendix A: Flowchart of the Accounting Services Invoice Payment Process</td>
<td>29</td>
</tr>
<tr>
<td>Appendix B: Flowchart of the Accounts Payable Invoice Payment Process</td>
<td>30</td>
</tr>
<tr>
<td>AGENCY RESPONSE</td>
<td>31</td>
</tr>
</tbody>
</table>
INTRODUCTION & BACKGROUND

The nation’s public health system includes a variety of service providers, including public health agencies, other public sector entities such as schools and environmental protection agencies, as well as private sector organizations whose products or activities impact public health. Although partnerships between public health departments and other public- and private-sector organizations are common, the relationship between public health departments and service providers, such as hospitals, is critical. For the City and County of Denver (City), the Denver Health and Hospital Authority (Denver Health) is an essential partner in providing public health services to residents and visitors to Denver. As such, we reviewed the Operating Agreement (Agreement) between the City and Denver Health to assess how the Department of Environmental Health (DEH) evaluates certain services provided under this Agreement.

The public health system is defined by four main components—mission, structure, process, and outcome. According to the U.S. Department of Health and Human Services (HHS), the current mission of public health is to “ensure conditions in which people can be healthy.” The public health system is structured to leverage the resources and relationships necessary to improve and sustain public health including human, fiscal, organizational, and information resources. Not only do the public health system’s practices, programs, and services uncover and address health problems, they also help achieve public health outcomes that provide an understanding of the system’s performance, efficiency, effectiveness, and equity.

To address the perceived disarray of the American public health system—specifically its governmental elements—HHS convened the Public Health Functions Steering Committee (Committee) in 1994. Made up of a group of representatives from the national public health community, the Committee developed a list of essential public health services tied to three core functions of public health—assessment, policy development, and assurance. See Table 1 for the list of essential public health services that provide the foundation for the nation’s public health approach.

---

### TABLE 1. Ten Essential Public Health Services

| **Assessment**                          | 1. Monitor health status to identify community health problems |
|                                       | 2. Diagnose and investigate health problems and health hazards in the community |
| **Policy Development**                 | 3. Inform, educate, and empower people about health issues |
|                                       | 4. Mobilize community partnerships to identify and solve health problems |
|                                       | 5. Develop policies and plans that support individual and community health efforts |
| **Assurance**                          | 6. Enforce laws and regulations that protect health and ensure safety |
|                                       | 7. Link people to needed personal health services and assure the provision of health care when otherwise unavailable |
|                                       | 8. Assure a competent public health and personal health care workforce |
|                                       | 9. Evaluate effectiveness, accessibility, and quality of personal and population-based health services |
| **Serving All Functions**              | 10. Research for new insights and innovative solutions to health problems |

**Source:** The Institute of Medicine’s The Future of the Public’s Health in the 21st Century.

To provide these ten essential services, federal, state, and local governments, as well as tribal and territorial health departments, work together while carrying out various roles and responsibilities that include policy-making, direct service delivery, and oversight.⁵

The Role of Federal, State, and Local Governments in the Public Health System

HHS is the federal department responsible for providing health and human services and conducting critical health-related research. HHS is made up of eleven operating divisions, eight of which make up the U.S. Public Health Service.

**Federal Government**—U.S. Public Health Service carries out the roles and responsibilities dictated by the Public Health Services chapter of the Public Health and Welfare Act that establishes the legal and structural framework of the nation’s public health, social welfare, and civil rights systems.⁶ The Centers for Disease Control and Prevention (CDC), the Food and Drug Administration (FDA), the National Institute of Health (NIH), and the Substance Abuse and

---

Mental Health Services Administration (SAMHSA) are a few of the key departments that are part of the U.S. Public Health Service. The primary responsibilities of HHS include the following:

- Policy-making
- Financing public health activities
- Public health protection
- Collection and dissemination of information
- Capacity building for population health
- Direct management of services

In its capacity-building role, HHS ensures that state and local governments have the necessary resources to carry out their responsibilities of promoting health in the communities they serve.

**State Government**—The federal government allows states to exercise considerable authority in the type of public health services provided and the way those services are funded, organized, and delivered. All fifty states and the District of Columbia have state health departments that are the foundation of each state’s public health activity. Although the state health department is typically responsible for most public health functions, some services, such as regulating and inspecting hospitals and the regulation of indoor air quality, may be provided by partner agencies. Some of the activities to which state public health departments devote significant resources include compiling and reviewing health-related data and investigating as needed; engaging in laboratory testing; and planning for public health emergencies. In Colorado, the Colorado Department of Public Health and Environment (CDPHE) is the state-level public health department.

CDPHE’s responsibility to uphold a strong public health system in the state is aided by local public health departments. Local public health departments typically have primary operational responsibility for providing many, if not most, of the public health services in a given area.

**Local Government**—Local public health departments have different relationships with state health departments, depending on the organizational model adopted in each state. For example, in some states, the local health department is part of the state government. In other states, including Colorado, the local health department is independent of the state and

---

7 The CDC plays the lead role in preventing and controlling diseases and other preventable conditions as well as responding to public health emergencies. The FDA is responsible for ensuring food is safe and that human and animal drugs, biological products, and medical devices are safe and effective, among other roles. The NIH promotes the collection and sharing of medical knowledge, supports biomedical and behavioral research, and conducts research in NIH laboratories and clinics. SAMHSA strives to improve access to high quality and effective programs for individuals with, or at risk for, addictive and mental disorders. “HHS Agencies and Offices,” U.S. Department of Health and Human Services, accessed December 9, 2015, http://www.hhs.gov/about/agencies/hhs-agencies-and-offices/index.html.

8 6 CCR § 1014-7.

functions as part of the local government. Moreover, some states have a shared approach in which local health departments are governed by state and local authorities; others use a mixed approach that involves the use of more than one of the above governance types. Local public health departments often provide both personal and population-based services. Personal-care services include immunizations and screenings for communicable diseases; population-based services include infectious disease pandemic planning and surveillance of communicable disease and environmental health. Further, inspections of food establishments, schools, day care facilities are often conducted by local public health departments. However, few local public health departments provide primary health care services and instead partner with local providers for these services. Colorado regulations establish minimum quality standards for public health services that local public health departments must follow. Among these standards are requirements to conduct and disseminate public health assessments, investigate health problems and environmental public health hazards, develop public health policies and plans, and enforce public health laws.

Fifty-four local public health departments serve Colorado communities. Often, these services are offered by a county public health department; however, since the City is a combined city-county structure, these services are provided by the city-county government.

Denver’s Public Health System

In Denver, DEH and Denver Health are the two primary entities providing public health services to residents of and visitors to Denver, with DEH also providing environmental health services. In 1997, Denver General Hospital, which was founded in 1860 and operated by the City’s Department of Health and Hospitals, was converted to an independent hospital authority—Denver Health—under state statute. In addition, the City Charter was amended to create DEH as the successor to the Department of Health and Hospitals. This change in status enabled Denver Health to function as a political subdivision of the State of Colorado, providing it with the ability to use its own purchasing and personnel system and access additional grant funding, medical partnerships, and fundraising resources. As a part of this change, DEH and the Board of Environmental Health (Board) were created. DEH is responsible for carrying out the City’s regulatory responsibilities and performing some public health functions. Among other duties, the Board establishes policy and regulations designed to protect the environmental

10 According to the most recent profile of local health departments conducted by the National Association of County and City Health Departments (NACCHO), four states have local health departments that are part of the state government and twenty-seven states, including Colorado, have local health departments that are located within the local government. Three states use the shared approach whereas fourteen states and the District of Columbia use the mixed approach. Hawai’i and Rhode Island were not included in the NACCHO study as they provide all public health services through state public health agencies only. “2013 National Profile of Local Health Departments,” National Association of County and City Health Officials, accessed June 29, 2015, http://www.naccho.org/topics/infrastructure/profile/upload/2013-National-Profile-of-Local-Health-Departments-report.pdf.
health of residents and responds to complaints of any persons affected by DEH activities. Apart from any requirements contained in contracts between the City and Denver Health, the only power the City can exert over Denver Health is the Mayor’s ability to appoint and remove members of Denver Health’s Board of Directors. Denver Public Health (DPH)—a department within Denver Health—and DEH work cooperatively to provide public health services. DPH provides health promotion activities as well as public health services at both the individual and population level. DEH, on the other hand, provides regulatory and environmental public health services as well as some health promotion activities.

**The Department of Environmental Health**

As established by the Denver Revised Municipal Code (DRMC), DEH administers all programs and functions that relate to the public’s physical and mental health as well as all environmental health programs within the City. More specifically, DEH carries out the following functions:

- Investigation and control of communicable diseases
- Regulation of publicly and privately owned institutions for the purposes of maintaining sanitation and public health standards
- Promulgation and enforcement of regulatory measures and rules for protection of the public’s health
- Operation of facilities for the physical and mental health of Denver citizens and others
- Operation of the morgue
- Performance of functions assigned by law to coroners of counties
- Performance of functions assigned by law to local health departments, health administrators, the environmental health department, or the health officer of the City
- Management, operation, and control of solid or hazardous waste disposal sites owned or operated by the City, and management and control of the operation, care, repair, and maintenance of all structures on which those sites are located and operated
- Management and operation of the City’s environmental compliance and remediation programs

To accomplish its mission of achieving healthy communities, DEH strives to pursue five specific goals: a healthy environment, healthy people, healthy pets, healthy places, and a healthy planet. Figure 1 illustrates the assignment of these goals to DEH divisions.

---

13 The Board consists of five members who serve five-year, staggered terms. Each member is Mayor-appointed and confirmed by City Council. D.R.M.C. § 2.12.4.
14 C.R.S. § 25-29-106 (1).
15 D.R.M.C. § 2.12.1.
COLORADO’S PUBLIC HEALTH ACT REQUIRES THAT EACH COUNTY ESTABLISH A PUBLIC HEALTH DEPARTMENT WITH A PUBLIC HEALTH DIRECTOR AND THE STAFF NECESSARY TO PROVIDE PUBLIC HEALTH SERVICES. ONCE ESTABLISHED, THE DEPARTMENT MUST DEVELOP A COMPREHENSIVE PUBLIC HEALTH PLAN THAT DEMONSTRATES HOW QUALITY PUBLIC HEALTH SERVICES WILL BE PROVIDED. THE PUBLIC HEALTH ACT ALSO REQUIRES EACH COUNTY TO ESTABLISH A LOCAL BOARD OF HEALTH TO GUIDE AND OVERSEE EACH PUBLIC HEALTH DEPARTMENT.  

Both DEH and Denver Health provide public health services, but Mayor Hancock clarified the roles of each by informing the state in 2013 that DEH is Denver’s city and county public health department.

In 2015, approximately $50 million was appropriated to DEH from the City’s General Fund for its services, personnel, equipment, and other costs. See Table 2 for DEH’s budget and the funding provided to Denver Health for 2013 through 2015.

---

**FIGURE 1.** DEH Divisions and Goals

- **Healthy Environment**
  - Environmental Quality Division
- **Healthy People**
  - Community Health Division
  - Office of the Medical Examiner
- **Healthy Places**
  - Public Health Inspections Division
- **Healthy Planet**
  - Environmental Quality Division
- **Healthy Pets**
  - Animal Protection Division

**Source:** DEH Annual Report 2014.


17 DEH also receives funding from the City’s Environmental Services Enterprise Fund and Special Revenue Funds. DEH’s Environmental Quality (EQ) Division is funded by the Environmental Services Enterprise Fund. Approximately $7.2 million was appropriated to DEH’s EQ Division in 2015 from the Environmental Services Enterprise Fund according to the Mayor’s Proposed 2016 Budget. Special Revenue Funds are made up of revenue sources that can only be used for certain purposes as restricted by law or administrative action. Federal, state, local, and private grants as well as taxes and donations are just some of the revenue sources for Special Revenue Funds. DEH’s Special Revenue Funds include Air Pollution Control, the Child Care Licensing and Inspections Fund, the Shelter Cat Pilot program, and the Ryan White HIV grant. DEH’s Special Revenue Fund expenditures total an estimated $9,809,446 in 2015.
TABLE 2. DEH Budget and Funding to Denver Health-2013 to 2015

<table>
<thead>
<tr>
<th>Budget and Funding</th>
<th>2013 Actual</th>
<th>2014 Actual</th>
<th>2015 Appropriated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total DEH General Fund Budget*</td>
<td>$44,636,302</td>
<td>$48,956,927</td>
<td>$49,765,302</td>
</tr>
<tr>
<td>DEH Operating Budget</td>
<td>$10,380,018</td>
<td>$11,444,411</td>
<td>$12,062,402</td>
</tr>
<tr>
<td><strong>Total Payments to Denver Health</strong></td>
<td><strong>$34,256,284</strong></td>
<td><strong>$37,512,516</strong></td>
<td><strong>$37,702,900</strong></td>
</tr>
</tbody>
</table>

**Payments to Denver Health by Section:**

<table>
<thead>
<tr>
<th>Service</th>
<th>2013 Actual</th>
<th>2014 Actual</th>
<th>2015 Appropriated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Health Services</td>
<td>$2,259,300</td>
<td>$2,393,700</td>
<td>$2,630,600</td>
</tr>
<tr>
<td>Denver CARES</td>
<td>$3,802,700</td>
<td>$4,120,800</td>
<td>$4,075,500</td>
</tr>
<tr>
<td>Rocky Mountain Poison and Drug Consultation Services</td>
<td>$96,900</td>
<td>$96,900</td>
<td>$96,900</td>
</tr>
<tr>
<td>Patient Care Services</td>
<td>$27,977,300</td>
<td>$30,777,300</td>
<td>$30,777,300</td>
</tr>
<tr>
<td>Park Hill Clinic</td>
<td>$120,084</td>
<td>$123,816</td>
<td>$122,600</td>
</tr>
</tbody>
</table>

**Source:** Mayor’s 2015 Budget and Proposed 2016 Budget.
*Includes payments to Denver Health.

Denver Health

Denver Health is the state’s largest health care safety-net provider as well as its primary Medicaid provider. Led by a Board of Directors and several executives including a Chief Executive Officer and Chief Financial Officer, it provides primary and specialty care, emergency medicine, and acute hospital care to the City and surrounding communities. Denver Health’s mission, as defined in state law, includes the following tenets:18

- Provide access to quality preventative, acute, and chronic health care to all citizens of Denver regardless of their ability to pay
- Provide high quality emergency medical services to the region
- Fulfill the public health needs of the community
- Provide health education for patients and health care professionals
- Engage in research that enhances its ability to meet the health care needs of patients

To measure its level of service, Denver Health uses metrics such as inpatient admissions, outpatient visits, Medicaid patients, and uninsured care. Table 3 lists Denver Health’s main services.

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TABLE 3. Denver Health Services

<table>
<thead>
<tr>
<th>Correctional Care</th>
<th>Regional Poison Center and Nurse Line</th>
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</thead>
<tbody>
<tr>
<td>Denver CARES</td>
<td>Research</td>
</tr>
<tr>
<td>Denver Health Medical Center</td>
<td>Rocky Mountain Center for Medical Response to Terrorism</td>
</tr>
<tr>
<td>Denver Health Medical Plan</td>
<td>Rocky Mountain Regional Trauma Center</td>
</tr>
<tr>
<td>Education</td>
<td>School-Based Health Centers</td>
</tr>
<tr>
<td>Family Health Centers</td>
<td>911 Emergency Response</td>
</tr>
<tr>
<td>Public Health</td>
<td></td>
</tr>
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</table>

Source: Denver Health 2015 Budget Review.

According to Denver Health’s 2014 Annual Report, it spent almost $250 million in 2014 providing medical care for those who were unable to pay.\(^{19}\) In addition, the number of uninsured patients treated at Denver Health is approximately 14 percent, which is more than twice the average of other Colorado hospitals.\(^{20}\) However, the passage of the federal Affordable Care Act in 2010 expanded the public’s access to insurance coverage, which has led to a decrease in Denver Health’s costs related to treating the uninsured.

City’s Operating Agreement with Denver Health

The relationship between DEH and Denver Health is formalized and described in an Agreement that is re-negotiated annually.\(^{21}\) The Agreement establishes the services to be provided by Denver Health and the City and the methods for determining the City’s financial support to Denver Health. The Agreement is divided into three sections: core services to be provided by Denver Health, non-core services to be provided by Denver Health, and services to be supplied by the City to Denver Health.

Examples of core services provided for the City by Denver Health include surgical inpatient and outpatient services, emergency medical services, medical investigation of disease, maintenance of vital records and statistics, detoxification and treatment services, poison and drug consultation services, medical care for prisoners, and management of the Denver Health Medical Plan, among others. Non-core services can be added to or terminated as needed. Examples include occupational health and safety services, Head Start medical services, and medical expert services for the County Court. In addition, the City provides a few services to

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\(^{21}\) D.R.M.C. § 2.12.2 (D).
Denver Health such as human resources services for all Career Service Authority employees at Denver Health, payroll and attorney services, as well as prisoner security services. In addition to DEH, several other City agencies fund services provided by Denver Health in accordance with the Agreement, including the Department of Safety, Denver Human Services, the Department of Finance, and the Department of Aviation (Denver International Airport). In 2015, the City appropriated more than $58 million to Denver Health for all services provided under the Agreement. DEH provided more than 64 percent, or $37.7 million, of the City’s funds to Denver Health.

DEH-Funded Portions of the Operating Agreement

DEH funds several types of core services described in the Agreement, as well as one non-core service. The Agreement categorizes these services as Patient Care Services, Public Health Services, Denver CARES, Rocky Mountain Poison and Drug Consultation Services (Poison and Drug Consultation Services), and Park Hill Clinic financing. The Patient Care Services section of the Agreement—funded by DEH—receives the highest allocation of funding compared to all other sections of the Agreement.23

Patient Care Services—As shown in Table 2, DEH pays Denver Health $30.7 million to provide medical services to the area’s medically indigent, defined as those who are unable to pay or do not have a third-party payer such as insurance. Denver Health’s patient care services include emergency room visits, inpatient and outpatient services, child and adolescent immunizations, flu vaccinations, and cancer screening.

Public Health Services—The City paid Denver Health approximately $2.6 million in 2015 to provide public health services.24 As required by the Agreement, Denver Health conducts the medical investigation of disease, makes recommendations to the City for disease control, provides disease control through a variety of clinics, and administers and maintains vital records. In addition, Denver Health works with the City to develop two comprehensive public health plans—a public health assessment and public health improvement plan. As required by State law, DEH and Denver Health must collaborate to develop a comprehensive assessment of the health of Denver every three years and a community health improvement plan every five years.25

Denver CARES—In 2015, DEH paid Denver Health approximately $4 million for services associated with Denver CARES, which is Denver Health’s non-hospital detoxification facility. Through Denver

22 Other services provided by the City to Denver Health include the following: addressing workers compensation claims prior to 2006, programming and repair services for Denver Health’s EMS radios and accessories, accident traffic reports and services from a Denver Police Department officer in the Emergency Department, vehicle fueling and maintenance, Denver 911’s universal call taker system, and support for Denver Health’s minority- and women-owned business program.
23 Visit the following Denver Health website to review recent annual reports and learn about the wide variety of services Denver Health provides to the City as required by the Agreement: http://www.denverhealth.org/about-us/who-we-are/annual-reports.
25 The most recent health improvement plan titled “Be Healthy Denver: Denver’s Community Health Improvement Plan, 2013-2018” can be accessed using the following link: https://www.denvergov.org/Portals/746/documents/CHIP%20Full%20Report%20FINAL.pdf.
CARES, Denver Health provides clinical and other services to those in need of short- and long-term detoxification and treatment assistance for alcohol abuse. Denver Health also provides transportation for public inebriates to the Denver CARES facility when necessary. Denver Human Services, through its homelessness program known as Denver's Road Home, provides a staff member to document and coordinate Denver Health's effort to reduce homelessness among the individuals receiving care through this facility.

**Poison and Drug Consultation Services**—The City pays Denver Health $96,900 each year for poison control and drug consultation services. As such, Denver Health is the City's source for toxicology information and treatment recommendations related to poisonings as well as consulting services for the public and health care professionals and various educational institutions. The Poison Center answers calls twenty-four hours a day, every day of the year.

**Park Hill Clinic**—Through a separate funding agreement signed in 2007, the City agreed to assist Denver Health with costs related to land acquisition and construction of the Park Hill Clinic, a family health center in the Park Hill neighborhood. In 2015, the City’s annual payment for this non-core service was $122,600.26

**Operating Agreement Payment and Reporting Requirements**

Each section of the Agreement describes specific payment and reporting requirements. For example, DEH pays Denver Health in advance, prior to services being provided, for four of the five DEH-funded sections of the Agreement.27 Additionally, DEH receives both monthly and quarterly invoices from Denver Health for the sections it funds.28 The payment terms vary across sections of the Agreement as well. For the Patient Care Services section, DEH is required to pay within ten days of its receipt of the invoice whereas DEH is required to pay within thirty days of receiving invoices for the Park Hill Clinic. Conversely, DEH provides its quarterly payments to Denver Health on the first business day of the months of January, April, July, and October. The City’s Accounting Services function in the Controller's Office assists DEH with its invoice payment process.

The Agreement requires Denver Health to provide DEH and the City with an Annual Report that describes aggregated information on services provided throughout the year for all sections of the Agreement.29 It also describes other section-specific reporting requirements such as quarterly

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26 The City received a Section 108 loan of $7.5 million from the U.S. Department of Housing and Urban Development (HUD) to help finance this clinic. The City then entered into a loan agreement with the Denver Urban Renewal Authority (DURA), which formalized the City’s loan of these funds to DURA. However, DURA is required to loan up to $4.5 million to Denver Health to support construction costs for this clinic. Further, the City provides assistance to Denver Health with its Section 108 loan payments.

27 DEH pays in arrears, or after the services have been provided, for the Park Hill Clinic.

28 DEH receives monthly invoices for the Patient Care Services and quarterly invoices from Denver Health for the Public Health Services, Denver CARES, and Poison and Drug Consultation Services sections. In regard to the Park Hill Clinic portion of the Agreement, DEH receives monthly invoices related to the City’s principal repayment obligation and quarterly invoices related to interest payments. In addition, the City makes annual payments to Denver Health for its percentage of the principal based on financial indicators.

29 In 2007, the City hired a contractor to research best practices, model programs, and performance outcomes related to each section of the Operating Agreement and to compare those against the performance measures used by Denver Health at that time.
expense and revenue reports and quarterly reports on communicable disease statistics.\textsuperscript{30} Denver Health must also work with DEH to prepare a community health improvement plan.

Most of the City’s payments to Denver Health are based on estimates that are calculated using budgeted expenditures and downward adjustments based on budgeted revenues or other discounts provided to the City.\textsuperscript{31} As a result, there may be a variance between the actual cost of these services and the originally budgeted cost. To identify any budget overage or shortfall, the Agreement requires Denver Health to perform a reconciliation no later than May of the year following the fiscal year for which the payment is made. The City’s Budget and Management Office (BMO) reviews the year-end reconciliation performed by Denver Health to ensure that it is consistent with monthly financial data provided by Denver Health and provides the reconciliations to City departments associated with the Agreement for their review.

When Denver Health identifies a budget shortfall, the City must reimburse Denver Health; conversely, if the reconciliation shows overpayment by the City, the overage must be returned to the City unless the City approves, in writing, Denver Health’s request to keep a portion of the overage.

\textsuperscript{30} Denver Health provides these quarterly expense and revenue reports monthly instead of quarterly.

\textsuperscript{31} The following sections of the Agreement that are funded by DEH have estimate-based payments: Public Health Services, Denver CARES, and Poison and Drug Consultation Services.
SCOPE

The audit assessed the Department of Environmental Health’s (DEH’s) portion of the Operating Agreement (Agreement) between the City and the Denver Health and Hospital Authority (Denver Health) to assess compliance with financial and operational requirements for 2014 and 2015. The audit also reviewed the City’s access to and protection of reportable data from Denver Health. We did not assess Denver Health, its financial status, or the quality of public health services provided under the Agreement.

OBJECTIVE

The objective of the audit was to assess the financial and operational risks associated with DEH’s portion of the City’s Agreement with Denver Health.

METHODOLOGY

We utilized several methodologies during the audit to gather and analyze information related to the audit objective. The evidence gathering methodologies included, but were not limited to:

- Interviewing DEH Interim Executive Director and the Director of the Community Health Division to determine roles, responsibilities, and current processes
- Interviewing the City’s Budget Director and the Budget Analyst assigned to the Agreement to understand the City’s budget processes related to the Agreement
- Interviewing and observing Controller’s Office and Accounts Payable staff to determine payment processing, review, and approval procedures
- Interviewing leadership and management with Denver Health, including the Chief Government and Community Relations Officer, the Administrative Director of Denver Health’s Department of Public Health, an Associate Chief Financial Officer, an Accounting Supervisor, and a Senior Budget Analyst to understand Denver Health’s processes related to the Agreement
- Interviewing the City’s current lead negotiators for the Agreement to understand the City’s new negotiation approach
- Interviewing Assistant City Attorneys with the City Attorney’s Office to gain an understanding of the history of the Agreement and services provided by Denver Health
- Interviewing management from accounting and consulting firm RubinBrown LLP to determine the scope and objectives of the firm’s 2015 assessment of Denver Health
- Interviewing management from the City’s Cash Risk and Capital Spending Division within the Department of Finance to determine the City’s cash management approach related to the Agreement
Interviewing other agencies and managers associated with the Agreement—Denver Human Services Deputy Director and Denver Sheriff’s Department Financial Manager—to identify best practices in regard to monitoring payments to and services from Denver Health

Interviewing the Colorado Department of Public Health and Environment’s Director of Local Public Health Support to obtain the state’s perspective on the services provided by Denver Health and the City to residents of Denver

Reviewing and analyzing the Agreement to identify reporting and payment requirements and circumstances under which funding shortfalls or overages can occur

Reviewing Denver Health’s reconciliations of budget shortfalls and overages for 2014 and 2015 to determine the level of validation that the Budget and Management Office and DEH provide

Reviewing the results of the Budget and Management Office’s annual reconciliation process for 2014 and 2015 to compare against City requirements and best practices

Reviewing and analyzing the Agreement to determine the types of data and records that Denver Health provides to DEH and other City agencies

Researching City requirements related to invoice payments and contract monitoring such as Executive Order 8, the Denver Revised Municipal Code, and Fiscal Accountability Rules

Analyzing and testing all 2014 and 2015 Denver Health invoices associated with Patient Care Services, Public Health Services, Denver CARES, Rocky Mountain Poison and Drug Consultation Services, and the Park Hill Clinic to determine the level of adherence to City requirements and best practices and DEH’s effort to validate that services were provided

Researching leading practices related to contract monitoring and administration and invoice processing and validation

Researching City requirements and best practices regarding access to data provisions in government contracts

Researching federal, state, and local requirements for protection of personally identifiable information

Reviewing Denver Health’s 2016 budget presentation to City Council

Attending City Council Safety & Well Being Committee meeting in regard to the pending approval of the 2016 Agreement

Visiting the Denver CARES facility to observe services provided by Denver Health
FINDING 1

The Department of Environmental Health Does Not Effectively Monitor Services and Payments Associated with Its Provisions in the Operating Agreement with Denver Health

The Department of Environmental Health (DEH) has limited internal controls in place to perform adequate contract administration and oversight over all sections of the Operating Agreement (Agreement) with the Denver Health and Hospital Authority (Denver Health) for which they are responsible. Effective contract administration and oversight includes validating the services provided by Denver Health and ensuring that payments for those services are accurate and in accordance with the terms of the Agreement.

Specifically, we found that Denver Health does not consistently provide supporting documentation listing the services delivered and detailed information for amounts billed. Further, DEH does not independently validate the information received from Denver Health to ensure accuracy and to reconcile all payments and services as appropriate. DEH also lacks a consistent, comprehensive process for reviewing and approving invoices. The effect of these internal control gaps is that DEH cannot assess the accuracy of Denver Health invoices or ensure that Denver Health has provided all of the services required by the Agreement.

DEH Does Not Receive Sufficient Information to Validate That Denver Health Has Provided All Required Services Prior to Making Payments

DEH cannot adequately validate that Denver Health has provided all required services related to the sections in the Agreement for which DEH is responsible. This was apparent in three areas. First, between January and September 2015, DEH approved the payment of invoices totaling approximately $29 million without any supporting documentation describing the services provided or explaining the amounts billed. Second, DEH does not ensure that all sections of the Agreement with estimate-based payments are being reconciled at year-end to verify the accuracy of revenues and expenditures. Third, DEH is not conducting audits or surveys to independently validate performance metrics reported by Denver Health. Not only are these deficiencies inconsistent with some City rules and requirements but they do not reflect best practices.

Supporting Documentation Is Not Provided with Denver Health Invoices—We reviewed all forty-six invoices paid by the City in 2014 and 2015. These invoices represent services provided under all five sections of the Agreement that DEH funds. Out of the forty-six invoices, forty-one (89 percent) did not include any supporting documentation explaining the charges for services performed. Despite this lack of supporting detail, these invoices were still approved by DEH and processed for payment by Accounting Services.
Although the Agreement does not require that supporting documentation be provided with the invoices for four sections of the Agreement funded by DEH, the Patient Care Services section specifies that Denver Health shall prepare an invoice or statement to be delivered to the City on a monthly basis containing the list of gross charges for patient care services on a patient-by-patient basis, showing charges by diagnosis for each patient.\textsuperscript{32} Twelve of the tested invoices submitted in 2014 and 2015 were for this section, and none included this detailed supporting documentation.\textsuperscript{33}

In addition, Denver Health provides monthly financial reports to DEH that list revenues, expenditures, and reporting on public health statistics and support services provided for the Public Health Services and Denver CARES sections of the Agreement. However, this information does not directly support the billed amounts in the invoices. This lack of supporting documentation for Denver Health’s invoices is not consistent with the City’s Fiscal Accountability Rule 2.5, which requires every transaction to include adequate supporting documentation that provides a clear picture of the transaction. More specifically, supporting documentation should include the amount of the transaction, nature and purpose of the transaction, special terms and conditions of the transaction, and necessary approvals. In addition, the State of Colorado Procurement Manual states that, for service contracts, payments should be based on invoices detailing services performed. Department staff should review invoices to match vendor billing and vendor performance and ensure that performance is in line with service levels as established in the contract. Accordingly, department staff should review invoices to ensure that the goods or services have been accepted and that invoices are correct and in compliance with contract provisions. In addition, circumstances may necessitate withholding payments to vendors if costs on invoices are unsupported or undocumented.

To address these deficiencies, DEH should enforce the payment mechanism documentation requirements in the Patient Care Services section of the Agreement or work with the City’s Agreement negotiation team to adjust the Agreement language to reflect the documentation necessary to enable DEH to validate invoices from Denver Health.\textsuperscript{34} In addition, DEH should consider requesting additional supporting documentation with each invoice from Denver Health that includes specific metrics pertaining to that section of the Agreement such as types of services provided, number of people served, or amounts charged per service so that DEH has a clear understanding of the services being provided and the amount billed on each invoice.

\textbf{DEH Does Not Ensure That Reconciliations Are Conducted for All Estimate-Based Payments}—For three sections of the Agreement—Public Health Services, Denver CARES, and Poison and Drug...
Consultation Services—Denver Health submits a budget request to the City for the upcoming fiscal year. These proposed City payments for Denver Health services are calculated using budgeted expenditures and a subsequent downward adjustment based on budgeted revenues. Since these payments are estimate-based, according to the Agreement, Denver Health must conduct a reconciliation to identify any budget shortfall or overage. However, our review of the annual reconciliation documentation provided by Denver Health shows that this reconciliation process has not been performed for the Poison and Drug Consultation Services section over the last three years. The City pays Denver Health more than $96,000 annually for poison and drug consultation services.

The U.S. Government Accountability Office’s (GAO’s) Standards for Internal Control specify that reconciliations are an important transaction control activity and monitoring tool. Additionally, the State of Colorado Procurement Manual describes the need for financial reviews and audits to evaluate contract results. Further, the Poison and Drug Consultation Services section of the Agreement describes the necessary actions if additional funding is needed from the City, or if the City overpaid for services. However, unlike the Public Health Services and Denver CARES sections, it does not specifically require a reconciliation, or any other process, to identify services provided per payment and any budget shortfall or overage. To ensure that a reconciliation is conducted for all sections of the Agreement with payment mechanisms based on estimates, DEH should consider adding a reconciliation requirement to the Poison and Drug Consultation Services section of the Agreement.

**DEH Does Not Adequately Review Denver Health’s Performance**—The Agreement lists a variety of reports that Denver Health is required to provide to DEH, including expense and revenue reports, as well as information on services provided throughout the year. However, Denver Health does not provide DEH with the quarterly report listing revenues, costs, and program statistics as required in the Poison and Drug Consultation Services section of the Agreement. This quarterly report should include full-time equivalent (FTE) hours worked, average FTE cost, program service costs, and drug and poison center case volumes. While the City receives performance information for the Poison and Drug Consultation Services section in the Annual Report from Denver Health, it does not include the detailed financial information and program statistics needed to adequately monitor costs and performance on a consistent basis.

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35 The other two sections funded by DEH require different payment mechanisms. The payment for the Patient Care Services section is determined by a complex calculation involving total gross charges, patient pay and third-party payments, other reimbursements including Medicaid Disproportionate Share/State Provider Fee and Healthcare Services Fund funding, and a discount provided by Denver Health. The City’s payment that supports land acquisition and construction of the Park Hill Clinic is described in a separate Funding Agreement.

36 In 2014, the City allowed Denver Health to keep $1.3 million of a $1.6 million budget overage.


38 The performance criteria included in the Annual Report for this section includes the following: how quickly telephone lines are answered and physicians respond to a page, certification timelines, how the center educates the public, and number of calls to the center.
In addition, DEH does not independently validate the reported information it receives from Denver Health for the other sections of the Agreement it funds because the Department does not have access to the Denver Health information systems that generate the information. Further, DEH does not consistently perform or request audits of the performance information or services provided by Denver Health to validate the appropriateness of the services received and charges billed. Moreover, DEH does not conduct surveys of recipients of the services provided by Denver Health to assess the quality and type of services received.

Executive Order 8 provides guidelines for City staff regarding initiating and monitoring contracts. It states that the responsibilities of the initiating authority, or manager of a City department or agency, include monitoring performance under the contract throughout the life of the contract and ensuring that the terms of the contract are met. In addition, the State of Colorado Procurement Manual specifies that monitoring performance is a key function of proper contract administration. Monitoring verifies that vendors are performing their contractual obligations in accordance with contract terms.

Additionally, the U.S. Office of Management and Budget’s Office of Federal Procurement Policy specifies that good contract administration assures that the end user is satisfied with the service being obtained under the contract. One way to assess customer satisfaction is to obtain input directly from the customer through a survey.

As stated in GAO’s Standards for Internal Control, management should establish and operate monitoring activities to oversee the internal control system and evaluate results. Considerable time and personnel are necessary to effectively perform this task. The individual or staff responsible for contract monitoring should possess substantive knowledge of the services being performed and what is required for adequate contract oversight. In addition, they must understand the work that the contractor is supposed to perform and how to hold them accountable for their performance. However, only one individual within DEH is responsible for overseeing a wide variety of services provided to DEH by Denver Health and this person has not received training on how to review medical bills. DEH’s ability to effectively monitor Denver Health services and payments is limited by this lack of staff with specific knowledge of the Agreement who possess the required skills and training to be able to review medical billing documentation. Therefore, DEH should ensure that the Department has adequate staffing to perform effective oversight of the Agreement or discuss the establishment of a central contract manager responsible for managing oversight of the Agreement with the City’s negotiation team. DEH should also work with the City’s Budget and Management Office (BMO) and the City’s negotiation team to pursue the services of a utilization management professional to help the City sample and assess the billing and services provided by Denver Health on a regular basis in accordance with the Agreement.39 Lastly, DEH should conduct

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39 According to the Utilization Review Accreditation Commission (URAC), utilization management is the evaluation of the necessity, appropriateness, and efficiency of health care services, procedures, and facilities. See the URAC website for more information: https://www.urac.org/accreditation-and-measurement/accreditation-programs/all-programs/health-utilization-management/. The Denver Sheriff’s Department previously acquired utilization management services for the medical expenditures associated with its section of the Agreement. However, we could not determine the reason that these services are no longer provided.
periodic audits and surveys to assess the quality of services provided to residents by Denver Health.

DEH’s Invoice Review and Approval Process Is Inconsistent

We observed a lack of consistency in the review and approval process of invoices related to DEH’s sections of the Agreement. Specifically, we found invoices that were processed without any management approval as well as invoices that were approved by individuals outside of DEH. This inconsistent invoice approval process reduces oversight of the Agreement and increases the City’s risk of paying for services not provided or that are not consistent with Agreement terms. More broadly, this inconsistent approval process weakens the City’s internal control structure since invoice review and approval are key controls that help ensure the accuracy and validity of services prior to payment.

To test the quality of DEH’s invoice review and approval process, we requested approval documentation for 2014 and 2015 invoices from Accounting Services, which is responsible for processing payments to Denver Health on DEH’s behalf. However, we were unable to test twenty-five invoices from 2014 because Accounting Services could not locate documentation demonstrating approval of these invoices. As a result, our invoice testing population consisted of twenty-one invoices for 2015. Our testing of these twenty-one invoices is described in Table 4.

TABLE 4. Invoice Testing Results for 2015 Invoices

<table>
<thead>
<tr>
<th>Invoice Status</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approved by DEH</td>
<td>16 of 21</td>
</tr>
<tr>
<td>Approved by Other Departments ¹</td>
<td>3 of 21</td>
</tr>
<tr>
<td>Not approved ²</td>
<td>2 of 21</td>
</tr>
</tbody>
</table>

Source: Audit team's testing of 2015 invoices.

Notes: ¹ One of these invoices was related to a marijuana database included in the epidemiology and surveillance services described in the Public Health Services section of the Agreement. This invoice was approved by management in the Mayor’s Office. The other two invoices were related to the Park Hill Clinic section and were approved by BMO.
² Two 2015 invoices for the Patient Care Services section of the Agreement were not approved.

In addition to our invoice testing, we found two invoices related to the Park Hill Clinic from the second quarter of 2015 totaling $5,308 that have not been paid by the City. Accounting Services sent these two invoices to DEH for review and approval; however, DEH declined to approve them and requested that BMO assume the responsibility for reviewing and approving them. BMO’s review of these invoices and the requirements established in the Park Hill Funding

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⁴⁰ See Appendix A and Appendix B for the Accounting Services and Accounts Payable invoice review and approval processes.
Agreement led to the discovery of the City’s overpayment to Denver Health by $57,095. This overpayment was eventually credited back to the City.

The inconsistent approval process is not consistent with GAO’s Standards for Internal Control, which maintains that management should design control activities to achieve objectives and respond to risk. The attributes listed that support this principal include the following:

- Response to Objectives and Risks
- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties

Specifically, Design of Appropriate Types of Control Activities is described as activities that are part of an entity’s internal control system and help management fulfill responsibilities. The examples given in GAO’s Standards for Internal Control of common categories of control activities are as follows:

- Top-level reviews of actual performance
- Reviews by management at the functional or activity level
- Establishment and review of performance measures and indicators
- Segregation of duties
- Proper execution of transactions
- Accurate and timely recording of transactions
- Appropriate documentation of transactions and internal control

Of these control activities, several are particularly relevant to our invoice testing. We identified gaps related to segregation of duties, proper execution of transactions, and appropriate documentation of transactions and internal control.

GAO’s Standards for Internal Control defines segregation of duties as the segregation of key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording transactions, reviewing the transactions, and handling any related assets so that no one

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41 The Park Hill Funding Agreement states that, beginning on January 1, 2010, until the Section 108 loan has been repaid, the City will pay a percentage of Denver Health’s Section 108 scheduled loan payment for the Permanent Facility; the percentage shall be based on the following financial indicators for its Denver Health Medical Center (DHMC) fund component: Debt service coverage is 3.5 or better, number of average days cash on hand for the prior year is 65 days or better and net operating margin of operating revenues over operating expenses is 1 percent or better. The payment in any given year in which Denver Health failed to meet the financial indicators in the previous fiscal year will be 50 percent of the 108 Loan Payment. The payment in any given year in which Denver Health meets the financial indicators in the previous fiscal year will be 25 percent of the 108 Loan Payment. Whether Denver Health has met the financial indicators will be determined by a reconciliation conducted on or before May 31 of each year. Upon completion of the reconciliation, if the City’s actual payment exceeds its required payment the difference shall be refunded to the City; if the City’s actual payment was less than its required payment, the City shall promptly pay the balance.

individual controls all key aspects of a transaction or event. The two invoices related to the Park Hill Clinic that BMO approved are inconsistent with these segregation of duties guidelines. Since BMO has financial oversight of the Agreement, authorization should occur outside of BMO.

The lack of authorization for two Patient Care Services invoices is inconsistent with the proper execution of transactions control activity. According to GAO’s Standards for Internal Control, transactions are authorized and executed only by persons acting within the scope of their authority, which ensures that only valid transactions to exchange, transfer, use, or commit resources are initiated or entered into. By processing these invoices without authorization, this control was bypassed.

Lastly, our inability to obtain approval documentation for 2014 invoices is contrary to the control activity category called appropriate documentation of transactions and internal control. For this category of control activity, GAO’s Standards for Internal Control states that documentation and records should be properly managed, maintained, and readily available for examination.

The current invoice approval process for DEH invoices related to the Agreement can be improved to better align with GAO’s Standards for Internal Control regarding the design of control activities and thus strengthen the internal control framework related to the Agreement. This would help ensure both the accuracy and validity of invoices. For example, no invoice should be processed without management approval. Specifically, DEH should review and approve all invoices related to the DEH-funded sections of the Agreement and retain those approvals for reference or audit purposes. To that end, DEH should coordinate with BMO and other relevant City agencies, such as Denver Human Services, to formally document which department should fund and provide financial and operational oversight for the Patient Care Services, Denver CARES, Poison and Drug Consultation Services, and Park Hill Clinic portions of the Agreement, and the level of oversight required. These measures would help satisfy the requirements set forth in GAO’s Standards for Internal Control related to segregation of duties, proper and timely recording of transactions, as well as appropriate documentation of transactions and internal control.

A Lack of Clarity on Roles and Responsibilities Has Impacted DEH’s Oversight of the Agreement

The deficiencies we identified regarding DEH’s monitoring of services provided by and payments to Denver Health are related to a lack of clarity and accountability with regard to which department is ultimately responsible for providing oversight over the DEH-funded sections of the Agreement. Documentary evidence suggests that DEH is responsible for monitoring and approving payments for five distinct sections of the Agreement. However, several individuals with official responsibilities related to the Agreement provided a different perspective.

The Mayor’s 2015 Budget and Proposed 2016 Budget clearly present that Patient Care Services, Public Health Services, Denver CARES, Poison and Drug Consultation Services, and the Park Hill Clinic are funded by DEH. Our review of invoices associated with these five sections of the Agreement supports this assignment of responsibility. Specifically, sixteen of the twenty-two invoices reviewed from 2015 show that DEH is responsible for approving invoices for payment.

43 Ibid.
44 Ibid.
This is consistent with documentation provided by the Controller’s Office, which shows that DEH is the expending authority for these sections of the Agreement. Additionally, BMO personnel who provide budgetary and negotiation assistance with the Agreement stated that DEH is the Department responsible for financial and operational oversight of the payments for these five sections of the Agreement.

In contrast, several individuals with longstanding knowledge of the Agreement provided different views on DEH’s oversight responsibilities. Members of the City Attorney’s Office stated that DEH is not responsible for Denver CARES. However, they disagreed on whether DEH is responsible for two additional sections—Poison and Drug Consultation Services and the Park Hill Clinic. Specifically, one Assistant City Attorney said that BMO, not DEH, is responsible for overseeing Denver CARES, Poison and Drug Consultation Services, and the Park Hill Clinic. Finally, the invoice approving authority within DEH for the DEH-funded sections of the Agreement told auditors that DEH is not responsible for managing the Denver CARES and the Park Hill Clinic sections of the Agreement.

In summary, DEH cannot ensure that payments are accurate and approved, and that DEH receives all required services from Denver Health, because of its current practice of approving invoices without supporting documentation and utilizing an inconsistent invoice review and approval process. Although BMO found that the City overpaid Denver Health by a total of $57,095 in 2011 and 2014 for activity related to the Park Hill Clinic, we could not determine whether the City overpaid in other instances because invoices provided by Denver Health do not contain any supporting documentation or data demonstrating the services provided for each payment.
RECOMMENDATIONS

We make the following recommendations to DEH to improve its ability to monitor services provided by and payments to Denver Health:

1.1 Clarify Payment Mechanism for Patient Care Services—DEH should enforce the payment mechanism documentation requirements in the Patient Care Services section of the Operating Agreement; alternatively, DEH could work with the City’s Operating Agreement negotiation team to adjust the Operating Agreement language to identify what documentation would enable DEH to validate invoices from Denver Health associated with the Patient Care Services section of the Operating Agreement.

Auditee Response: Agree, Implementation Date - Fall 2016

DEH agrees with the recommendation and will work with the City’s Operating Agreement negotiation team to evaluate, and adjust if necessary, the language within the Operating Agreement to reinforce and clarify the documentation that is necessary to validate invoices. DEH will then work with the Controller’s Office and Denver Health to assure the necessary documentation is received prior to payment.

1.2 Supporting Documentation—DEH should request additional supporting documentation with each invoice from Denver Health that includes specific metrics pertaining to a section of the Operating Agreement (e.g., types of services provided, number of people served, amounts charged per service, contractor and subcontractor invoices for construction projects) so that DEH has a clear understanding of the services being provided and the amount being billed on each invoice.

Auditee Response: Agree, Implementation Date - March 2016

DEH agrees with the recommendation and will request additional supporting documentation with each invoice when necessary and as outlined in the Operating Agreement.

1.3 Reconciliations—DEH should work with the City’s Operating Agreement negotiation team to add a provision that requires a reconciliation to identify services provided per payment and any budget shortfall or overage to the Patient Care Services and Poison and Drug Consultation Services sections of the Operating Agreement.

Auditee Response: Agree, Implementation Date - Fall 2016

DEH agrees to work with the City’s Operating Agreement negotiation team to modify the language within the Operating Agreement regarding the reconciliation services provided per payment and any budget shortfall or overage to the Patient Care Services and Poison and Drug Consultation Services sections.
1.4 **Monitoring Personnel**—DEH should ensure that it has the necessary staffing and skill sets for monitoring payments to and services provided by Denver Health or discuss with the City’s Operating Agreement negotiation team the establishment of a central contract manager responsible for managing oversight of the Operating Agreement.

**Auditee Response: Agree, Implementation Date - April 2016**

DEH agrees to engage in discussions with the City’s Operating Agreement negotiation team regarding the establishment of a central contract manager responsible for managing oversight of the Operating Agreement.

1.5 **Utilization Management Resource**—DEH should work with BMO and the City’s Operating Agreement negotiation team to pursue the services of a utilization management professional to help the City sample and assess the billing and services provided by Denver Health on a regular basis in accordance with the Operating Agreement.

**Auditee Response: Agree, Implementation Date - April 2016**

DEH agrees to engage in discussions with the City’s Operating Agreement negotiation team regarding the benefits of implementing a utilization management professional. It might be possible to achieve the same goal by further utilizing existing infrastructures to include evaluating, and revising if necessary, the existing Service Level Agreement between DEH and the Controller’s Office.

1.6 **Quality of Services Assessments**—DEH should explore conducting periodic audits, surveys, or assessments to measure the quality of services provided to residents by Denver Health.

**Auditee Response: Agree, Implementation Date - April 2016**

DEH agrees there should be a mechanism for validating the quality of services provided by Denver Health. However, the department suggests that there are public agencies such as the Joint Commission for Accreditation that have the necessary resources and already evaluate the quality of services provided by Denver Health. DEH will monitor these third party reports to evaluate the level of services provided.

1.7 **Clarify Oversight Responsibilities**—DEH should coordinate with BMO and other relevant City agencies such as Denver Human Services to formally document which department should fund and provide financial and operational oversight for the Patient Care Services, Denver CARES, Poison and Drug Consultation Services, and the Park Hill Clinic portions of the Operating Agreement and the level of oversight required.
Auditee Response: Agree, Implementation Date - April 2016

DEH agrees that clarification is necessary regarding the roles and responsibilities of all City agencies involved in the Operating Agreement such that it is clear which department should fund and provide financial and operational oversight for the Patient Care Services, Denver CARES, Poison and Drug Consultation Services, and the Park Hill Clinic portions of the Operating Agreement. This will be achieved by developing internal City policy documents that make this clear.
FINDING 2

The Budget and Management Office Could Improve the Approval Process for Surplus Funds and Increase the Visibility of Funded Projects

Although the Department of Environmental Health (DEH) was the focus of this audit, through our audit work we identified that the Budget and Management Office (BMO) is responsible for surplus funds associated with the Operating Agreement (Agreement), including those sections funded by DEH. Specifically, we found that BMO has not formally documented its process for making decisions regarding the use of surplus funds connected to the Agreement. In addition, BMO does not follow up with the Denver Health and Hospital Authority (Denver Health) to ensure that surplus-funded projects are implemented as approved. BMO could increase the transparency of Denver Health’s use of taxpayer money by documenting its decision-making process regarding the use of surplus funds and requesting follow-up information from Denver Health about the implementation of these projects.

BMO Has Not Formally Documented Its Settle-Up Process

Several sections of the Agreement funded by DEH—Public Health Services and Denver CARES—are budgeted in a manner that can lead to budget shortfalls or overages. Although DEH is aware of the surplus amount, it is not involved in the decision-making regarding the use of surplus funds.

BMO has created an internal process to guide the City and County of Denver’s (City’s) decision-making process regarding the use of a budget overage. In the event of a budget overage, Denver Health may submit a proposal to BMO requesting to spend the budget surplus on projects relevant to Denver Health and the services it provides to the City. According to BMO, the focus of these requests is typically on discrete projects or equipment, such as an x-ray machine. Next, BMO engages in the following four-step process to review Denver Health’s request:

- In March of each year, Denver Health sends BMO the final year-end reports.
- BMO emails each department to validate the amount shown as a surplus or deficit for each department.
- In case of surplus, Denver Health makes requests for the use of funds. BMO vets the requests with the departments, the City Attorney’s Office, the Manager of Finance, and the Mayor’s Office.
- Approved surplus items are summarized in a memo and appendix from the Budget Director to the Chief Financial Officer of Denver Health.

In response to Denver Health’s proposal submitted in 2014, BMO sent an email, or "settle-up" memo, to Denver Health documenting its decision. The 2014 total surplus totaled approximately $1.6 million after the Denver Sheriff’s Department retained savings associated with its sections of the Agreement. Denver Health was allowed to keep $1.3 million to provide funding for the At-
Risk Intervention and Monitoring (AIM) program and the relocation of the Office of the Medical Examiner.45 Denver Health returned the remaining $300,000.

Approval of Surplus Funds Is Not Fully Captured—Although the Budget Director creates this settle-up memo on behalf of the City explaining the decisions regarding Denver Health’s proposed use of surplus funds, there is no documentation demonstrating that all required parties approved the final decision. Specifically, it is unclear whether the decision was vetted by the City Attorney’s Office, the Manager of Finance, or the Mayor’s Office.

DEH and BMO Cannot Validate the Financial Information Denver Health Provides—BMO personnel explained that they have adequate visibility of the surplus funds because BMO and other City departments, including DEH, receive monthly financial reports from Denver Health. These monthly financial reports show any budget surplus or shortfall for certain sections of the Agreement. BMO reviews these monthly reports and calculates estimates for the entire year. However, considering that DEH does not receive supplemental information for many invoices and does not continuously contract with a utilization management consultant to assess the validity of medical codes used in billing, BMO makes its estimates based on Denver Health information.

Transparent and complete financial reporting helps decision makers evaluate performance related to achieving financial objectives and is described as a fundamental element of internal controls in GAO’s Standards for Internal Control.46 Complete financial reporting would require the receipt of necessary supplemental information and a periodic assessment of the validity of the provided information as described in Finding 1.

Visibility of Funded Projects Could Be Improved—Denver Health has not been required to provide follow-up information to BMO to demonstrate how surplus funds have been used. Moreover, neither the public nor City leadership are consistently informed about how surplus monies are spent on Denver Health projects. As a result, the City cannot ensure that surplus funds associated with the Agreement are used in a manner consistent with the purpose for which they were approved.

Due to BMO not formally documenting its process for reviewing and approving Denver Health’s use of surplus funds, we were unable to determine if the process is consistently followed. Further, the City traditionally has not asked for follow-up information reflecting the status of surplus-funded Denver Health projects due to the informal character of the surplus fund settle-up process.

To increase the transparency of this surplus settle-up process, the City should consider developing and documenting a formal process for reviewing and approving Denver Health’s proposals for using surplus funds. The City should also consider requesting annual follow-up

45 Denver Health’s AIM program is a violence intervention program that assists at-risk youth and young adults who are treated for violent injuries in the hospital’s emergency department.
information regarding how Denver Health used surplus funds to increase transparency and accountability regarding how taxpayer monies are used.
RECOMMENDATIONS

We make the following recommendations to BMO to increase transparency around the usage of surplus funds:

2.1 **Formal Approval Process**—BMO should develop and consistently document a formal process for reviewing and approving Denver Health’s use of surplus funds. The process should include documenting and retaining evidence of correspondence with all City agencies involved and all required approvals.

*Auditee Response: Agree, Implementation Date - February 18, 2016*

BMO agrees with the recommendation and is in the process of drafting a formal surplus policy that will be adopted and used for the 2015 contract settle-up, which will occur in March 2016.

2.2 **Follow-up on Surplus Projects**—BMO should work with the City’s Operating Agreement negotiation team to pursue a requirement for Denver Health to demonstrate how surplus funds were used on an annual basis.

*Auditee Response: Agree, Implementation Date - February 18, 2016*

BMO agrees with the recommendation. BMO and Denver Health have agreed to incorporate reporting on the use of surplus funds in Denver Health’s annual report to the City. Reporting on the approved 2015 surplus items and an update on the 2014 approved items will be included in the 2015 annual report, which will be published in May 2016.
Appendix A: Flowchart of the Accounting Services Invoice Payment Process

The following flowchart illustrates the process used by Accounting Services staff to process Denver Health invoices paid by the Department of Environmental Health (DEH).47

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47 As part of its ongoing effort to make the invoicing process paperless, Accounting Services now uses Adobe Pro to add invoice numbers to the invoice in lieu of printing the invoice as indicated in the final two steps of the process depicted above.
Appendix B: Flowchart of the Accounts Payable Invoice Payment Process

The following flowchart illustrates the process used by Accounts Payable staff to process Denver Health invoices paid by DEH.

Start of Process

Accounts Payable (AP) receives email from AS in a secured email box with the attached approved invoice

AP views the invoice in Kofax and the receipt number written on the invoice

AP accesses and performs a search in PeopleSoft by entering the receipt number, invoice number, and other data

PeopleSoft generates vendor data

AP contacts AS if there are any questions related to the vendor or invoice

AP reviews vendor data in PeopleSoft entered by AS (e.g., vendor name and address and invoice amount) to ensure it matches the invoice.

AP creates the voucher which assigns a voucher identification number and initiates payment

AP enters receipt number and voucher identification number in Kofax

This ensures Kofax has an image of the voucher

This voucher image will be available in PeopleSoft through a link

Payment is made based on vendor payment terms established in PeopleSoft

End of Process
February 4, 2016

Auditor Timothy M. O’Brien, CPA
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80202

Dear Mr. O’Brien,

The Office of the Auditor has conducted an audit of Denver Environmental Health – Denver Health Operating Agreement

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on January 27, 2016. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1
The Department of Environmental Health Does Not Effectively Monitor Services and Payments Associated with Its Provisions in the Operating Agreement with Denver Health

RECOMMENDATION 1.1
Clarify Payment Mechanism for Patient Care Services—DEH should enforce the payment mechanism documentation requirements in the Patient Care Services section of the Operating Agreement; alternatively, DEH could work with the City’s Operating Agreement negotiation team to adjust the Operating Agreement language to identify what documentation would enable DEH to validate invoices from Denver Health associated with the Patient Care Services section of the Operating Agreement.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>Evaluation of necessary documentation in next 60 days. Any changes that are needed will be incorporated into the annual amendments to the Operating Agreement</td>
<td>Bob McDonald 720-865-5479</td>
</tr>
</tbody>
</table>
which are negotiated during the summer and approved by City Council and the Mayor in the fall.

Narrative for Recommendation 1.1

The Department of Environmental Health (DEH) agrees with the recommendation and will work with the City’s Operating Agreement negotiation team to evaluate, and adjust if necessary, the language within the operating agreement to reinforce and clarify the documentation that is necessary to validate invoices. DEH will then work closely with the Controller’s Office and Denver Health and Hospital Authority (DHHA) to assure the necessary documentation is received prior to payment.

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<tr>
<td>Agree</td>
<td>30 days</td>
<td>Bob McDonald 720-865-5479</td>
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Narrative for Recommendation 1.2

DEH agrees with the recommendation and will request additional supporting documentation with each invoice when necessary and as outlined in the Operating Agreement.

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Page 2 of 6
| Agree         | Evaluation of necessary changes in next 60 days. Any changes that are needed will be incorporated into the annual amendments to the Operating Agreement which are negotiated during the summer and approved by City Council and the Mayor in the fall. | Bob McDonald 720-865-5479 |

**Narrative for Recommendation 1.3**

DEH agrees to work with City’s Operating Agreement negotiation team to modify the language within the operating agreement regarding the reconciliation services provided per payment and any budget shortfall or overage to the Patient Care Services and Poison and Drug Consultation Services sections.

**RECOMMENDATION 1.4**

**Monitoring Personnel**—DEH should ensure that it has the necessary staffing and skill sets for monitoring payments to and services provided by Denver Health or discuss with the City’s Operating Agreement negotiation team the establishment of a central contract manager responsible for managing oversight of the Operating Agreement.

| Target date to complete implementation activities (Generally expected within 60 to 90 days) | Agree | Discussions with the Negotiation team in next 60 days to discuss the need for a central contract manager. | Bob McDonald 720-865-5479 |

**Narrative for Recommendation 1.4**

DEH agrees to engage in discussions with the City’s Operating Agreement negotiation team regarding the establishment of a central contract manager responsible for managing oversight of the Operating Agreement.

**RECOMMENDATION 1.5**

**Utilization Management Resource**—DEH should work with BMO and the City’s Operating Agreement negotiation team to pursue the services of a utilization management professional to help the City sample and assess the billing and services provided by Denver Health on a regular basis in accordance with the Operating Agreement.

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<tr>
<td>Agree</td>
<td>Discussions with the Negotiation team in next 60 days to discuss the need for a utilization management professional.</td>
<td>Bob McDonald 720-865-5479</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.5

DEH agrees to engage in discussions with the City’s Operating Agreement negotiation team regarding the benefits of implementing a utilization management professional. It might be possible to achieve the same goal by further utilizing existing infrastructures to include evaluating, and revising if necessary, the existing Service Level Agreement between DEH and the Controller’s Office.

RECOMMENDATION 1.6
Quality of Services Assessments—DEH should explore conducting periodic audits, surveys, or assessments to measure the quality of services provided to residents by Denver Health.

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<td>Bob McDonald 720-865-5479</td>
</tr>
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Narrative for Recommendation 1.6

DEH agrees there should be a mechanism for validating the quality of services provided to residents by Denver Health. However, the department suggests that there are public agencies such as the Joint Commission for Accreditation that have the necessary resources and already evaluate the quality of services provided by Denver Health. DEH will monitor these third party reports to evaluate the level of service provided.

RECOMMENDATION 1.7
Clarify Oversight Responsibilities—DEH should coordinate with BMO and other relevant City agencies such as Denver Human Services to formally document which department should fund and provide financial and operational oversight for the Patient Care Services, Denver CARES, Poison and Drug Consultation Services, and the Park Hill Clinic portions of the Operating Agreement and the level of oversight required.

Agree or Disagree with Recommendation | Target date to complete implementation activities | Name and phone number of specific point of |
|--------------------------------------|-----------------------------------------------|------------------------------------------|

Page 4 of 6
| Agree | (Generally expected within 60 to 90 days) | 60 days | Bob McDonald 720-865-5479 |

Narrative for Recommendation 1.7
DEH agrees that clarification is necessary regarding the roles and responsibilities of all City agencies involved in the Operating such that it is clear which department should fund and provide financial and operational oversight for the Patient Care Services, Denver CARES, Poison and Drug Consultation Services, and the Park Hill Clinic portions of the Operating Agreement. This will be achieved by developing internal City policy documents that make this clear.

AUDIT FINDING 2
The Budget and Management Office Could Improve the Approval Process for Surplus Funds and Increase the Visibility of Funded Projects

RECOMMENDATION 2.1
Formal Approval Process—BMO should develop and consistently document a formal process for reviewing and approving Denver Health’s use of surplus funds. The process should include documenting and retaining evidence of correspondence with all City agencies involved and all required approvals.

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<td>Agree</td>
<td>February 18, 2016</td>
<td>Stephanie Karayannis Adams 720-913-5051</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 2.1
BMO agrees with the recommendation and is in the process of drafting a formal surplus policy that will be adopted and used for the 2015 contract settle-up, which will occur in March 2016.

RECOMMENDATION 2.2
Follow-up on Surplus Projects—BMO should work with the City’s Operating Agreement negotiation team to pursue a requirement for Denver Health to demonstrate how surplus funds were used on an annual basis.

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**Narrative for Recommendation 2.2**

BMO agrees with the recommendation. BMO and Denver Health have agreed to incorporate reporting on the use of surplus funds in Denver Health’s annual report to the City. Reporting on the approved 2015 Surplus items and an update on the 2014 approved items will be included in the 2015 annual report, which will be published in May 2016.

Please contact Bob McDonald at 720-865-5479 with any questions.

Sincerely,

Robert M. McDonald
Interim Executive Director

cc: Kip R. Memmott, MA, CGAP, CRMA, Director of Audit Services
    Katja Freeman, MA, MELP

Page 6 of 6