FOLLOW-UP REPORT
Denver Department of Human Services
Rocky Mountain Human Services Audit
October 2017

Office of the Auditor
Audit Services Division
City and County of Denver

Timothy M. O’Brien, CPA
Denver Auditor
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 and contractors 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.

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Audit report year: 2015
Jay Morein, Chief of Staff  
Denver Human Services  
City and County of Denver  

Re: Audit Follow-Up Report  

Dear Mr. Morein:  

In keeping with generally accepted government auditing standards and the Audit Services Division’s policy, as authorized by D.R.M.C. § 20-276, our division has a responsibility to monitor and follow-up on audit recommendations to ensure that audit findings are being addressed through appropriate corrective action and to aid us in planning future audits.  

This report is to inform you that we have completed our follow-up effort for the Rocky Mountain Human Services audit issued December 15, 2015. Our review determined that the Denver Department of Human Services has implemented the recommendations made in the audit report.  

For your reference, this report includes a highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the highlights page is a detailed implementation status update for each recommendation.  

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to department personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5000 or Dawn Wiseman, Audit Manager, at 720-913-5069.  

Denver Auditor’s Office  

Timothy M. O’Brien, CPA  
Auditor
Rocky Mountain Human Services
October 2017

Status
The Denver Department of Human Services has implemented the six recommendations that were made in the December 2015 audit report.

Background
In 2003, Denver voters approved a dedicated mill levy to be set aside for children and adults with intellectual and developmental disabilities. Mill levy funding, approximately $11.5 million in 2015 and $14.5 million in 2016, is appropriated to the Denver Department of Human Services (DDHS) through a contract with Rocky Mountain Human Services (RMHS). RMHS is the City and County of Denver’s designated community centered board (CCB). CCBs are regulated through state and federal rules to serve individuals with intellectual and developmental disabilities.

Purpose
The objective of the audit was to determine whether DDHS and RMHS are in compliance with contract terms including mill levy spending requirements and reporting and oversight provisions. Additionally, we sought to determine whether RMHS’s financial condition could impede its ability to ensure continued service delivery to clients with intellectual and developmental disabilities.

Highlights from Original Audit
Due to financial troubles at Rocky Mountain Human Services (RMHS), the Denver Department of Human Services (DDHS) requested in 2015 that the Auditor’s Office conduct an audit of its contract with the nonprofit organization. We found that DDHS had not adequately monitored its contract with RMHS. This led to several undetected instances wherein RMHS was non-compliant with contract terms, including unreasonable spending and poor accounting practices. Further, RMHS had inappropriately utilized mill levy funds for individuals residing outside of the City and County of Denver.

The lack of contract monitoring by DDHS was further exacerbated by vague and outdated contract language, hindering DDHS’s ability to ensure that mill levy funds were being properly spent. The lack of monitoring could have negatively impacted service delivery for individuals with intellectual and developmental disabilities as well as taxpayer confidence regarding the City’s ability to effectively monitor and safeguard public funds.

RMHS’s expansion of its mission beyond its role as CCB for the City led to many financial issues culminating in the replacement of its leadership. While the organization had addressed many of these issues, we cautioned that its financial situation may be further impacted by the implementation of new federal rules. These rules would significantly change Colorado’s CCB structure, requiring the City to assess whether future funding dedicated to RMHS is actually serving Denver residents with intellectual and developmental disabilities.

Findings at Follow-up
DDHS updated RMHS’s contract exhibit to restrict questionable spending of mill levy funds and clarify reporting requirements. The department also clarified the Initiative 100 residency requirement by codifying its intent into Sec. 53.550 of the Denver Revised Municipal Code via Ordinance 1071-16. DDHS took steps to monitor its contract with RMHS by hiring a senior auditor to conduct quarterly cycle audits to ensure that mill levy funds are spent according to the contract.

The department has taken additional steps to retrieve documentation from RMHS to verify that administrative expenditures are in compliance with contract terms.

For a copy of this report, visit www.denvergov.org/auditor or contact the Auditor’s Office at 720-913-5000.
# Recommendations: Status of Implementation

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<td><strong>FINDING:</strong> Denver Department of Human Services’ Failure to Adequately Monitor its Contract with Rocky Mountain Human Services Has Contributed to Misuse of Taxpayer Funds</td>
<td><strong>1.1 Allowable Costs</strong> – DDHS should amend the contract exhibit to specify what constitutes an allowable cost to restrict questionable spending of mill levy funds in the future.</td>
<td>Implemented</td>
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DDHS amended the contract exhibit by adding new limitations on and requirements for how mill levy funds may be used. The exhibit also now includes a line item budget for each of the service programs, including the dollar amount of mill levy funds that will be allocated to the various programs. For example, the 2017 amended exhibit budgeted $1.5M of mill levy funds for the Early Intervention program. Additionally, DDHS clarified allowable mill levy expenditures within the exhibit as follows: (1) mill levy expenditures will be reasonable and ordinary based on RMHS’s standard cost allocation methodologies; (2) mill levy funds cannot be used for fundraising activities; (3) mill levy funds may only be used for communications and outreach-related expenses if they support intellectual and developmental disability programs; and (4) RMHS executives’ salaries will be properly classified as administrative expenses.
## Recommendations: Status of Implementation

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<td><strong>1.2</strong> Source Documentation - DDHS should request source documentation from RMHS to verify that expenditures were in compliance with contract terms. At a minimum, DHS 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 intellectual and developmental disability programs.</td>
<td>DDHS’s internal auditor now requests from RMHS source documents when conducting cycle audits. RMHS verified that this process is occurring by explaining to auditors that DDHS’s internal auditor requests detailed supporting documentation to verify that RMHS’s expenditures are in compliance with contract requirements, including the 15 percent limitation on administrative costs. Through the cost allocation methodology that RMHS has implemented, DDHS has determined that RMHS is excluding from mill levy reimbursements the fundraising expenditures and the communications and outreach expenses that do not address intellectual and developmental disability programs. Finally, DDHS relies on RMHS’s cost allocation of executive pay for being appropriately classified and accounted for as administrative expenses.</td>
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<td><strong>1.3</strong> 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.</td>
<td>In January 2017, the Denver City Council passed Ordinance Number 1071-16, which was codified in Section 53-550 of the Denver Revised Municipal Code. Subsection (c) of the statute establishes that revenue derived from the developmental disabilities mill levy is expended for the benefit of children who are residents of Denver.</td>
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<td>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.</td>
<td>As mentioned in the Auditee Action for Recommendation 1.3, in January 2017, the Denver City Council passed Ordinance Number 1071-16, which was codified in Section 53-550 of the Denver Revised Municipal Code. The action officially codified Initiative 100, which was passed by voters in 2003 but not subsequently codified. Section 53-550 covers the following: the establishment of a dedicated mill levy to fund services for persons with intellectual and developmental disabilities; outlines permitted uses of mill levy revenue; establishes a residency requirement for receipt of mill levy-funded services; places a cap on administrative expenses paid from mill levy funds; and requires regular reporting by the community centered board that is using the funds.</td>
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<td>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 local match and the Center for Training and Technical Assistance areas in the contract exhibit.</td>
<td>DDHS has clarified reporting requirements in the contract exhibit by specifying which items are required to be included in reports from RMHS. DDHS provided to auditors a copy of RMHS’s 2016 annual report, which included the newly required information. RMHS presented the information to City Council on April 4, 2017.</td>
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<td><strong>1.6 Monitoring</strong> - 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.</td>
<td>DDHS is now carrying out the contract-monitoring activities outlined in Recommendation 1.6. Specifically, DDHS has instructed its Contract Compliance Technician (CCT) to review RMHS’s monthly invoices for accuracy, and in the first quarter of 2016, the agency hired a full-time senior internal auditor to monitor the nonprofit’s allowable mill levy expenditures. Additionally, DDHS’s contract administration team now meets monthly with RMHS management and DDHS’s Chief of Staff. These meetings cover mill levy spending, proposals about how best to spend mill levy funds to assist their clients, and how best to monitor RMHS’s contract compliance. We also verified that DDHS’s senior internal auditor attends most of RMHS’s monthly Board of Directors’ meetings as well as RMHS’s mill levy advisory council meetings and community forums.</td>
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Conclusion

The Denver Department of Human Services (DDHS) has implemented the recommendations made in the Rocky Mountain Human Services (RMHS) audit report issued in 2015. Specifically, DDHS has put controls in place to mitigate the original audit risk by amending the contract with RMHS to clarify which expenditures are allowed to be funded using mill levy funds. DDHS has also hired a full-time senior internal auditor to monitor RMHS's expenditures related to mill levy funds.

In addition to DDHS’s improvements, RMHS has made some changes that should mitigate the risk of improper mill levy spending. RMHS’s management has implemented standard cost allocation methodologies, which will help ensure that mill levy funds do not finance fundraising activities and only support communications and outreach-related expenses if they support intellectual and developmental disability programs. Finally, RMHS’s executives’ salaries are now being included in the overhead cost allocation. Follow-up audit work verified that RMHS’s overhead charges to the mill levy funds have averaged 9 percent in 2016, which is below the 15 percent cap established by the contract.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from DDHS for their cooperation during our follow-up effort and their dedicated public service. We also extend our thanks to RMHS for their cooperation during our follow-up.