FOLLOW-UP REPORT
Department of Environmental Health
Denver Health Operating Agreement Audit
September 2017

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

Timothy M. O'Brien, CPA
Denver Auditor

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Audit report year: **2016**

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September 7, 2017

Robert McDonald, Executive Director
Department of Environmental Health
City and County of Denver

Re: Audit Follow-Up Report

Dear Mr. McDonald:

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 Denver Health Operating Agreement audit issued February 18, 2016. Our review determined that the Department of Environmental Health has adequately implemented six of the seven recommendations; additionally, the Budget and Management Office fully implemented both recommendations related to improving the process for approving and monitoring Denver Health's use of surplus funds associated with the Operating Agreement. However, despite the Department of Environmental Health's efforts, auditors determined that the risk associated with one of the audit recommendations resulting from the audit team's initial findings has not been fully mitigated. As a result, the Division may revisit this risk area in future audits to ensure that appropriate corrective action is taken.

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 personnel from the Department of Environmental Health, the Budget and Management Office, and the Denver Health and Hospital Authority 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 Emily Owens, Internal Audit Supervisor, at 720-913-5016.

Denver Auditor's Office

Timothy M. O'Brien, CPA
Auditor

REPORT HIGHLIGHTS

Denver Health Operating Agreement
September 2017

Status

The Department of Environmental Health (DEH) implemented six of the seven recommendations made in the February 2016 audit report. Additionally, the Budget and Management Office (BMO) implemented the two recommendations related to improving the process for surplus funds and visibility of funded projects.

Background

Public health services are provided to U.S. residents through federal, state, and local governments as well as other public and private sector organizations. In Denver, DEH and Denver Health are the primary public health service providers with DEH also providing environmental health services. Each year, the City and Denver Health negotiate a new Operating Agreement that dictates the services to be provided to residents of and visitors to Denver and the associated cost of these services.

Purpose

We sought to assess the financial and operational risks associated with DEH's portion of the City's Operating Agreement with Denver Health.

Highlights from Original Audit

Our audit identified two areas of concern regarding the City's Operating Agreement (Agreement) with the Denver Health and Hospital Authority (Denver Health). First, we found that Department of Environmental Health (DEH) did not effectively monitor the services provided by Denver Health and its payments for those 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 funding associated with the Agreement.

We found that DEH did not receive information necessary to validate that Denver Health provided all required services prior to making the payments. For instance, DEH did not consistently receive supporting documentation with Denver Health invoices. Also, DEH did not ensure that an end-of-year reconciliation was conducted for one section of the Agreement that involved estimate-based payments made in advance of services being provided. We also found that DEH's monitoring of Denver Health's performance was not adequate compared to best practices. Further, our review of Denver Health's invoices from 2014 and 2015 uncovered several inconsistencies. Although DEH was responsible for approving invoices for certain sections of the Agreement, we identified several instances of non-DEH employees approving invoices.

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 did not have documentation to demonstrate that it followed the appropriate approval process; furthermore, BMO did not validate that Denver Health used the funds consistent with the purpose(s) for which they were approved.

Findings at Follow-up

DEH enforced the Agreement's payment mechanism for the Patient Care Services section of the Agreement and revised the Agreement to require additional supporting documentation and to clarify oversight responsibilities. Additionally, DEH hired a Contract Manager to provide oversight of the Agreement; however, they did not pursue the services of a utilization management professional as recommended in the 2016 audit. Finally, BMO implemented the two recommendations that were aimed at improving the process for surplus funds and the visibility of funded projects.

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Recommendations: Status of Implementation

	Recommendation	Auditee Action	Status
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			
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.	DEH opted to enforce the payment mechanism documentation requirements in the Patient Care Services section of the Operating Agreement. Follow-up audit work verified that Denver Health now provides the supporting documentation required for each Patient Care Services invoice as described in the Operating Agreement.	**Implemented**
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.	All Denver Health invoices to DEH have been revised so that supporting documentation is required and reported on each invoice. Additionally, the required supporting documentation is described in each section of the 2017 Operating Agreement. Follow-up audit work found that DEH is now receiving this additional supporting documentation.	**Implemented**

Recommendations: Status of Implementation

	Recommendation	Auditee Action	Status
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.	The 2017 Operating Agreement was revised to clarify which services and associated payments require a reconciliation. Specifically, section 4.1 of the revised Operating Agreement states that flat payments do not require a reconciliation and that the Patient Care Services, along with Poison and Drug Consultation Services sections, of the Agreement involve flat payments. In addition, Denver Health provides supporting documentation to DEH demonstrating services provided.	**Implemented**
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.	A new position was created and filled in early 2017. The new Contract Manager is responsible for providing centralized oversight of the Operating Agreement.	**Implemented**
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.	DEH opted to not pursue the services of a utilization management professional at this time. According to DEH officials, their first step was to fill the Contract Manager position; later, they will evaluate whether a utilization management professional would be cost effective.	**Not Implemented** **Original target date for completion: April 2016**

Recommendations: Status of Implementation

	Recommendation	Auditee Action	Status
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.	Initially, DEH planned to monitor reviews and reporting provided by third parties, such as the Joint Commission for Accreditation, to evaluate the level of services provided by Denver Health. However, during our follow-up work, DEH identified a new strategy with assistance from Denver Health. Going forward, DEH will receive the annual *Health Quality and Safety Report* from Denver Health. This report includes survey information gathered by a third party regarding the customer experience provided by Denver Health. We determined that the information in this report should provide the insight intended by the original recommendation.	**Implemented**

Recommendations: Status of Implementation

	Recommendation	Auditee Action	Status
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.	The 2017 Operating Agreement includes designation of the principal agency responsible in each section. For example, Denver CARES oversight has been transferred to Denver Human Services' Office of Behavioral Strategies. Patient Care Services, Poison and Drug Consultation Services, and the Park Hill Clinic portions are overseen by DEH.	**Implemented**

Recommendations: Status of Implementation

	Recommendation	Auditee Action	Status
FINDING 2: The Budget and Management Office Could Improve the Approval Process for Surplus Funds and Increase the Visibility of Funded Projects			
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.	BMO has created a written surplus policy that was employed for the 2015 surplus process and will be used for the 2016 surplus process. The process included the documentation of all required approvals.	**Implemented**
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.	Surplus reporting is now captured in Denver Health's annual *Report to the City of Denver* (Annual Report). The 2015 Annual Report included reporting on the 2014 surplus-funded projects.	**Implemented**

Conclusion

While the Department of Environmental Health (DEH) has implemented six of the seven recommendations made in the Denver Health Operating Agreement audit report, one recommendation was not implemented. The Budget and Management Office (BMO) fully implemented both recommendations aimed at increasing the transparency of Denver Health's use of surplus funds. Despite DEH's efforts, auditors determined that the risk associated with the audit team's initial finding that the City could benefit from an internal resource to evaluate the necessity and efficiency of services provided by Denver Health, and the associated costs, has not been fully mitigated. As a result, the Audit Services Division may revisit this risk area in future audits to ensure that appropriate corrective action is taken.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from DEH, BMO, and Denver Health for their cooperation during our follow-up effort and their dedicated public service.