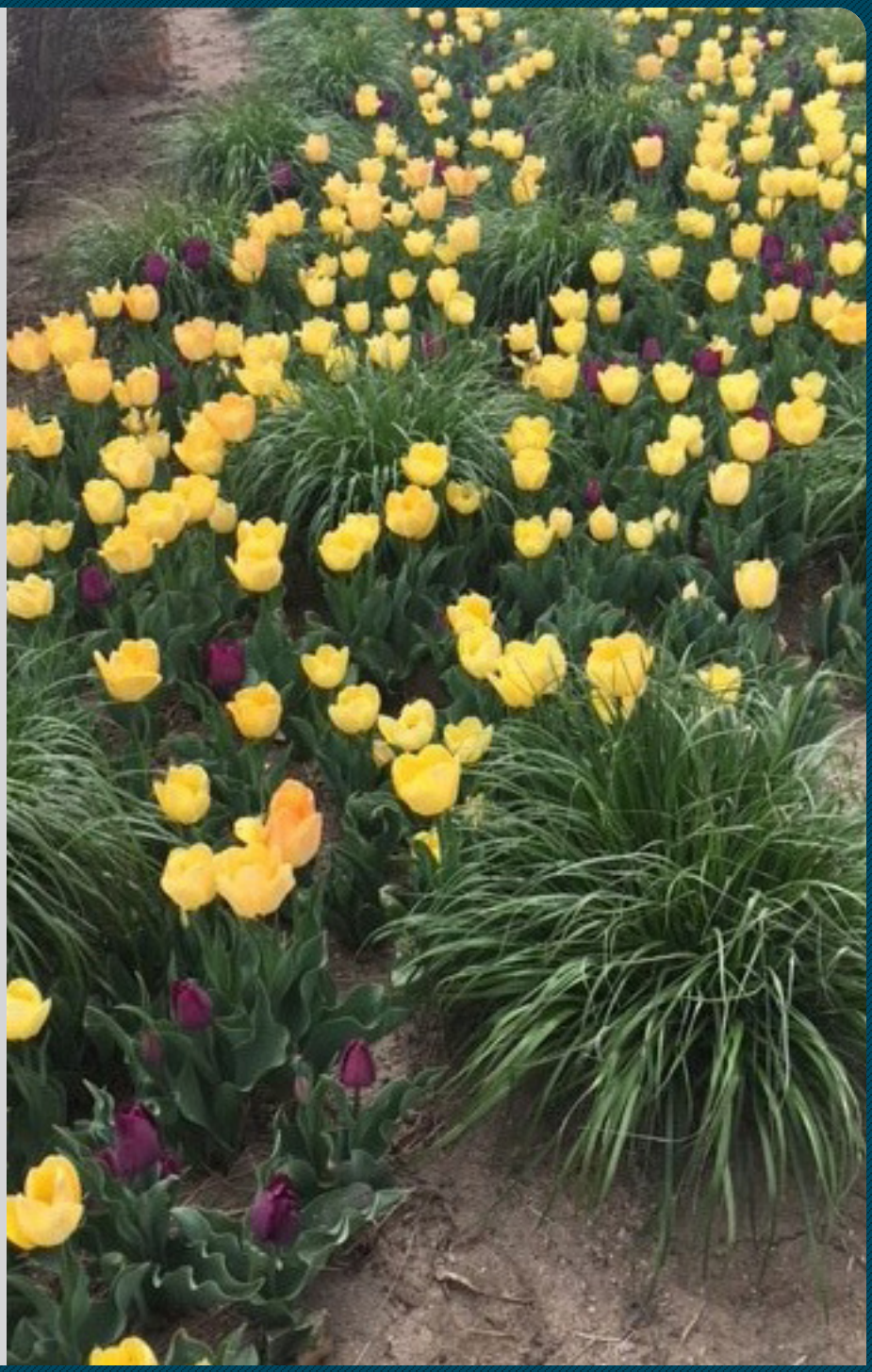
FOLLOW-UP REPORT
Compensation and Benefits
Office of Human Resources
December 2019

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

Timothy M. O'Brien, CPA
Denver Auditor



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December 5, 2019

AUDITOR'S LETTER

In keeping with generally accepted government auditing standards and Auditor's Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure findings are addressed through appropriate corrective action and to aid us in planning future audits.

In 2018, the Auditor's Office asked BKD LLP to evaluate the city's process for establishing employee compensation and benefits. The purpose of the project was to evaluate the May 2017 Total Rewards Assessment report prepared by Segal Waters Consulting to identify any gaps related to meeting the objectives of the assessment, evaluate the self-insurance presentation prepared by Lockton Companies and assess if conclusions presented in the report might represent opportunities for the city's health care plans, and evaluate the City's elected official compensation calculation. The evaluation resulted in recommendations for improvements in compensation and benefits processes, provided guidance for consideration of self-insurance options, and added clarification to the elected official compensation calculation process.

In our follow-up effort for the Compensation and Benefits evaluation, performed by BKD LLP and issued in May 2018, we determined the Office of Human Resources implemented three of the four recommendations made in the evaluation report. I am pleased the city will likely reduce health care costs by adopting a self-funded model for United Healthcare plans in 2020. However, despite the city's efforts, auditors determined the risks associated with the audit team's initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

This report includes a detailed implementation status update for each recommendation.

I would like to express our sincere appreciation to the Office of Human Resources personnel who assisted us throughout the evaluation and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor's Office

Timothy M. O'Brien, CPA
Auditor

RECOMMENDATION — STATUS OF IMPLEMENTATION

Observation No. 1 – An independent audit of the city's methodologies with respect to pay plan adjustments, classifications, and benefits has not been completed.

Recommendation

Compensation – In an effort to confirm the findings with respect to the Segal audit of survey methodologies and recommendations, BKD recommends that the Mayor's office commission this audit every four years as required in code section 18-5 and address the specific objectives outlined: "*The Mayor shall commission an independent audit of survey methodologies, determinations regarding generally prevailing rates and prevailing practices, and recommendations regarding pay rates and benefits made by the career service board or the Office of Human Resources Executive Director in the preceding year*". The Mayor's office should determine and conclude on the definition of an audit and determine if that includes an independent comparison study. The Mayor's office should select the qualified independent firm and agree to the scope work to be performed by the qualified firm. Also, BKD recommends that the firm selected utilize and describe the standards or professional frameworks used in assessing the methodologies and provide their opinions with respect to the methodologies utilized by the City.

Status: Implemented (Original target date for completion: June 30, 2018)

Agency Action

The Mayor's Office determined an audit would be defined as an evaluation of the Office of Human Resources' pay survey market analysis on best practice compensation standards. Such standards would consist of process alignment with city code and rules, selection of compensation survey sources, aging of survey data, benchmark job selection, and the determination of market adjustments. Further, the Mayor's Office determined an independent study was warranted and that audits would be performed by an independent third party every four years as required in code Section 18-5.

The Mayor's Office delegated to the Department of Finance the task of selecting the qualified independent firm. In 2019, the Department of Finance selected Compensation Connections LLC to conduct an audit of the Office of Human Resources' most recent compensation survey. The agreed-upon scope of work was to evaluate and determine whether the city's 2018 pay survey adhered to the requirements outlined in the city charter, city and Office of Human Resources guidelines, and current compensation industry standards. In its 2019 audit report, Compensation Connections outlined best practices, professional framework used in assessing the methodologies, and related recommendations to the city.

RECOMMENDATION — STATUS OF IMPLEMENTATION

Observation No. 2 – OHR's annual pay analysis does not currently include benefits analysis.

Recommendation

Benefits – The Mayor's office should indicate how often the employee benefits are to be reviewed. BKD recommends this be completed at least every other year.

Upon request from the Mayor's office, benefits packages should be reviewed to ensure the total compensation for city employees is in line with comparable markets.

Status: Not Implemented (Original target date for completion: June 1, 2019)

Agency Action

The Mayor's Office has yet to indicate how often employee benefits are to be reviewed. Further, the Mayor's Office has not requested to have the city's benefits packages reviewed to ensure total compensation for city employees is in line with comparable markets.

According to the Office of Human Resources, an effort to implement this recommendation is expected to take place in 2020.

RECOMMENDATION — STATUS OF IMPLEMENTATION

Observation No. 3 – No decisions have been made by the city regarding revising the current benefit plan relating to self-insurance.

Recommendation

Self-Insurance – BKD recommends that Lockton present the latest opportunities available to the City to the Employee Health Insurance Committee (EHIC) who has the authority to recommend changes to OHR and the Career Service Board.

Any analysis performed by OHR upon the recommendation from EHIC should include the following considerations: financial, cash flow, risk tolerance levels, comparable coverage needs, and administration and compliance (fees, HIPAA, nondiscrimination).

Should the City ultimately decide to go forward with the self-insurance option, the City should utilize EHIC, and potentially other individuals/groups from various departments within the City, to assist OHR with setup to provide comparable benefits, including plan structure and options, administration, compliance, and financial design of the program.

Status: Implemented (Original target date for completion: 2019)

Agency Action

Lockton Companies presented to the Employee Health Insurance Committee the latest self-insurance model opportunities available to the city. The analysis included considerations such as financial cash flow, risk tolerance levels, comparable coverage needs, and administration and compliance aspects. A vote by the Employee Health Insurance Committee to approve self-funding and plan changes was held in May 2019. The committee's approved changes were subsequently approved by a City Council ordinance in July 2019.

Specifically, the ordinance approved the switch from fully insured United Healthcare medical plans to self-funded United Healthcare medical plans beginning Jan. 1, 2020. It is estimated the switch will save the city nearly $12 million in expenses over a three-year period.

RECOMMENDATION — STATUS OF IMPLEMENTATION

Observation No. 4 – The elected official compensation calculation process and the roles and responsibilities involved should be better defined and clarified.

Recommendation

Elected Official Compensation – BKD recommends that the charter be reviewed and enhanced to include roles and responsibilities with respect to determining the official's compensation calculation and the process as well as potential clarification regarding the calculations used.

OHR and City Council should jointly formulate procedural documentation around the calculation of official compensation to include; where data is obtained, how data is obtained, who obtains data, who performs the calculations, who reviews the calculation, what data fields are considered, timing of the calculation, timing of the payout and any other steps that need to be considered during the process, including retention of documentation for audit purposes.

Status: Implemented (Original target date for completion: June 30, 2018)

Agency Action

The Office of Human Resources in conjunction with the City Attorney's Office created detailed procedural guidance for calculating elected officials' compensation. The procedural guidance included all the recommended enhancements such as evaluation timing, data gathering, roles and responsibilities for the analysis, calculation methodology, and documentation retention.

The decision was made to not enhance the city charter to include the roles and responsibilities with respect to determining the official's compensation calculation and clarification of the calculations used. Despite the decision to leave the city charter unchanged, we determined that the primary risks related to the recommendation were substantially mitigated by the detailed procedural guidance the Office of Human Resources and the City Attorney's Office created. As such, we concluded the recommendation was implemented.

CONCLUSION

While the city implemented three recommendations made in the Compensation and Benefits Evaluation Report, one other has yet to be implemented. Despite the city's efforts, auditors determined the risk associated with the audit team's initial findings have not been fully mitigated. For example, not including an analysis of benefits in the annual pay analysis makes it more difficult to meet the city's stated objective of attracting a competent workforce. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

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

Office of the 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. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver's government.

The **Audit Committee** is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the City's finances and operations, including the reliability 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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