

2016 MPIAF



**ROCKY MOUNTAIN
HUMAN SERVICES AUDIT**

**CITY AND COUNTY OF DENVER
AUDITOR'S OFFICE**



Today's Presenters



City and County of Denver Auditor's Office
Rocky Mountain Human Services Contract Audit Team:

Timothy M. O'Brien, CPA, City Auditor
Kip Memmott, Director of Audit Services
Dawn Wiseman, Audit Supervisor
Anna Hansen, Lead Auditor



Learning Objectives

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- The Value of an Integrated Audit Approach
- Overcoming the Challenges of a Third-Party Audit
- Using Innovative Reporting Practices
- Identifying Avenues for Maximizing Audit Impact



Audit Overview



- **Agency Requested Audit**

- Denver Department of Human Services (DDHS)
- Contract with Rocky Mountain Human Services (RMHS)

- **Audit Objectives**

- Determine compliance with contract terms:
 - ✦ Mill levy spending
 - ✦ Oversight requirements
- RMHS ability to ensure continued service delivery



Rocky Mountain Human Services (RMHS)



- **About RMHS**
 - Nonprofit organization
 - Denver's designated Community Centered Board (CCB)
- **About CCBs**
 - For-profit or nonprofit organizations
 - Regulated (state and federal)
 - Serve individuals with intellectual and developmental disabilities
- **CCBs in Colorado**
 - 20 total
 - Serve non-overlapping geographic areas



RMHS: Notable History



- **2003**
 - Ballot initiative to increase property taxes
 - Additional financial support
 - Approved by voters (68%)
- **2015**
 - RMHS CEO placed on paid leave
 - CEO and CFO terminated
- **2016**
 - New Executive Director and CFO



Denver Department of Human Services (DDHS)

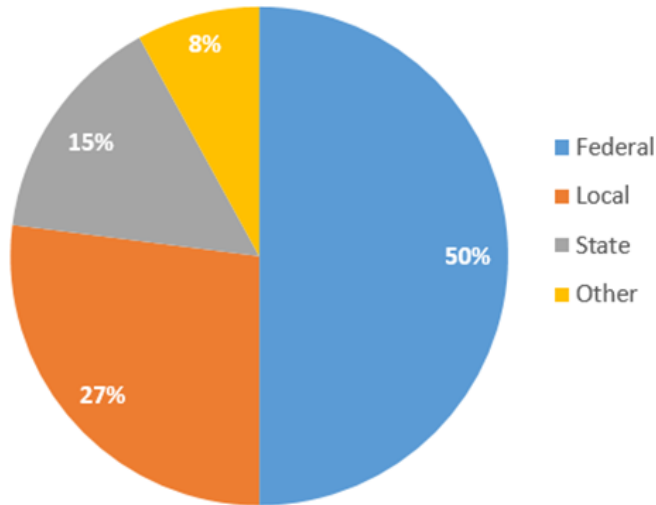


- **About DDHS:**
 - Manages mill levy funds
 - Contract with RMHS
 - Processing monthly invoices



RMHS Funding

Figure 2: Rocky Mountain Human Services Funding Sources



Source: Rocky Mountain Human Services audited financial statements for fiscal year 2014.

Table 2: Annual Mill Levy Amounts for the Developmental Disabilities Fund

Year	Mill Levy Amount
2004	\$7,555,000
2005	\$7,721,200
2006	\$8,022,300
2007	\$8,383,300
2008	\$8,718,600
2009	\$11,081,819
2010	\$11,358,000
2011	\$10,965,000
2012	\$10,328,500
2013	\$12,981,241
2014	\$11,492,988
2015*	\$11,466,000
2016**	\$14,551,414

Source: City Budget Books 2006-2016

* Indicates Appropriated Funds

**Indicates Recommended Funds



What We Found



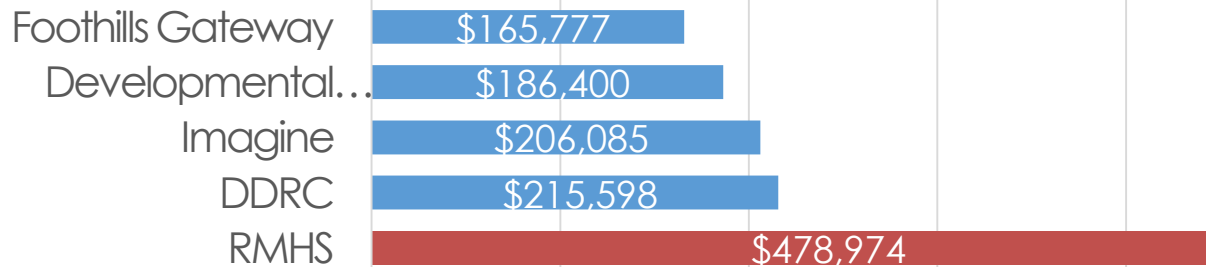
- **DDHS's Failure To Adequately Monitor its Contract with RMHS Has Contributed to Misuse of Taxpayers Funds**
 - Questionable expenses
 - Admin expenses exceeded cap
 - Personnel expenses outside of contract terms
 - Non-Denver clients served
 - Paying funds under an expired provision
 - Not meeting with City Council



What We Found—Cont'd



- RMHS commingled all funding sources
- In 2014 the former CEO's earnings totaled over \$470K
 - Considerably higher than other CCBs
 - RMHS management could not determine funding source



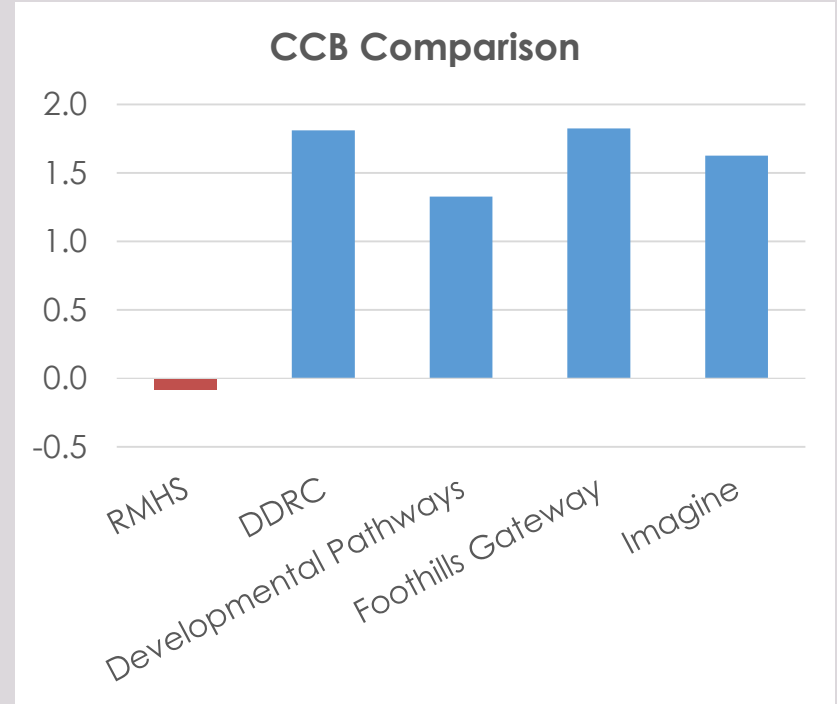
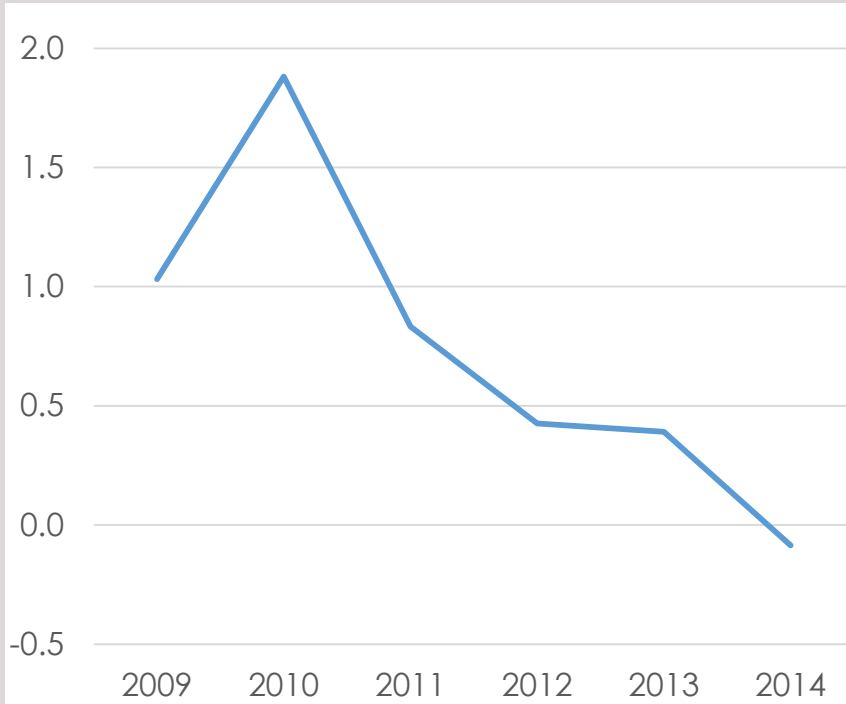
Audit Approach - Methodology



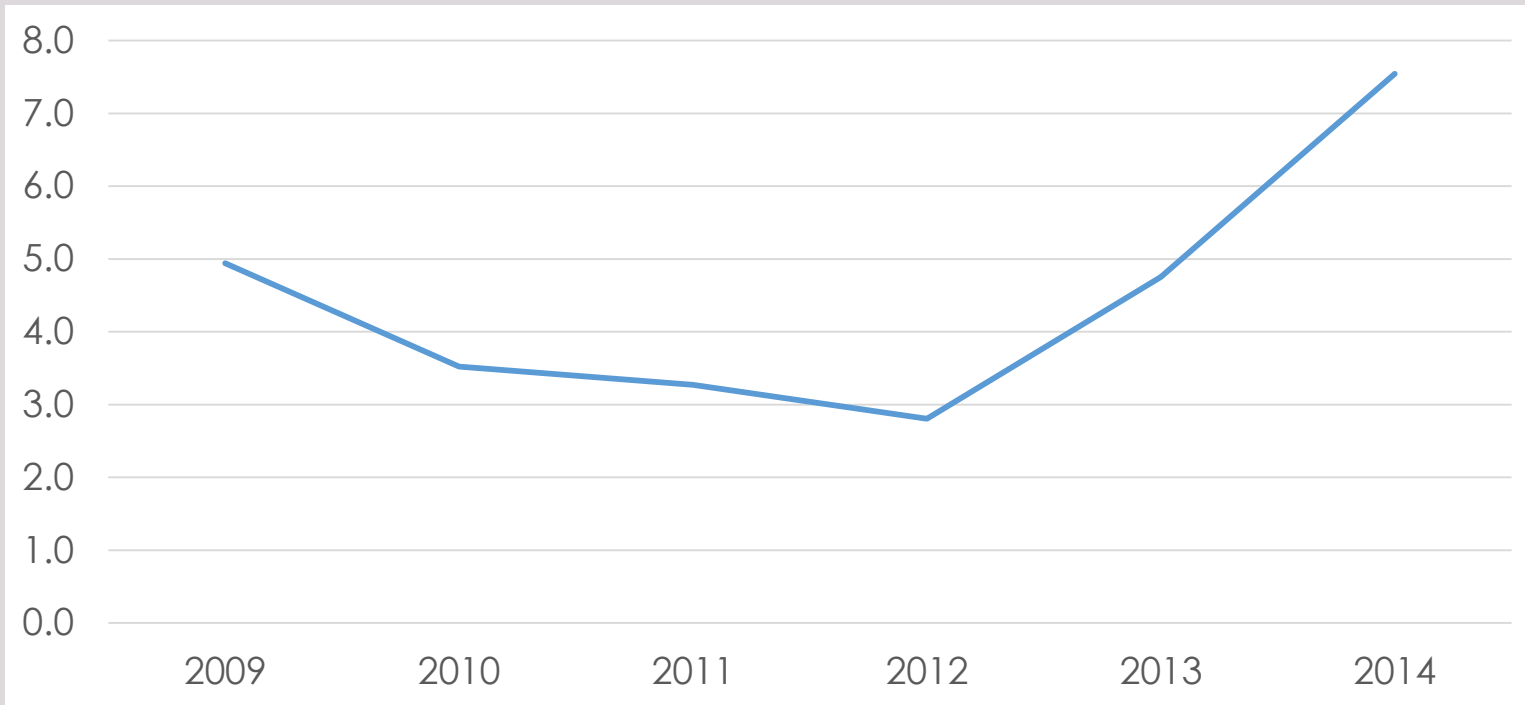
- **Integrated Audit**
 - Performance Audit
 - Policy Analysis
 - Financial Audit
 - ✦ Financial Statements
 - ✦ Financial Ratios
 - Trended the ratios over a 5-year period
 - Benchmarked RMHS against other CCBs



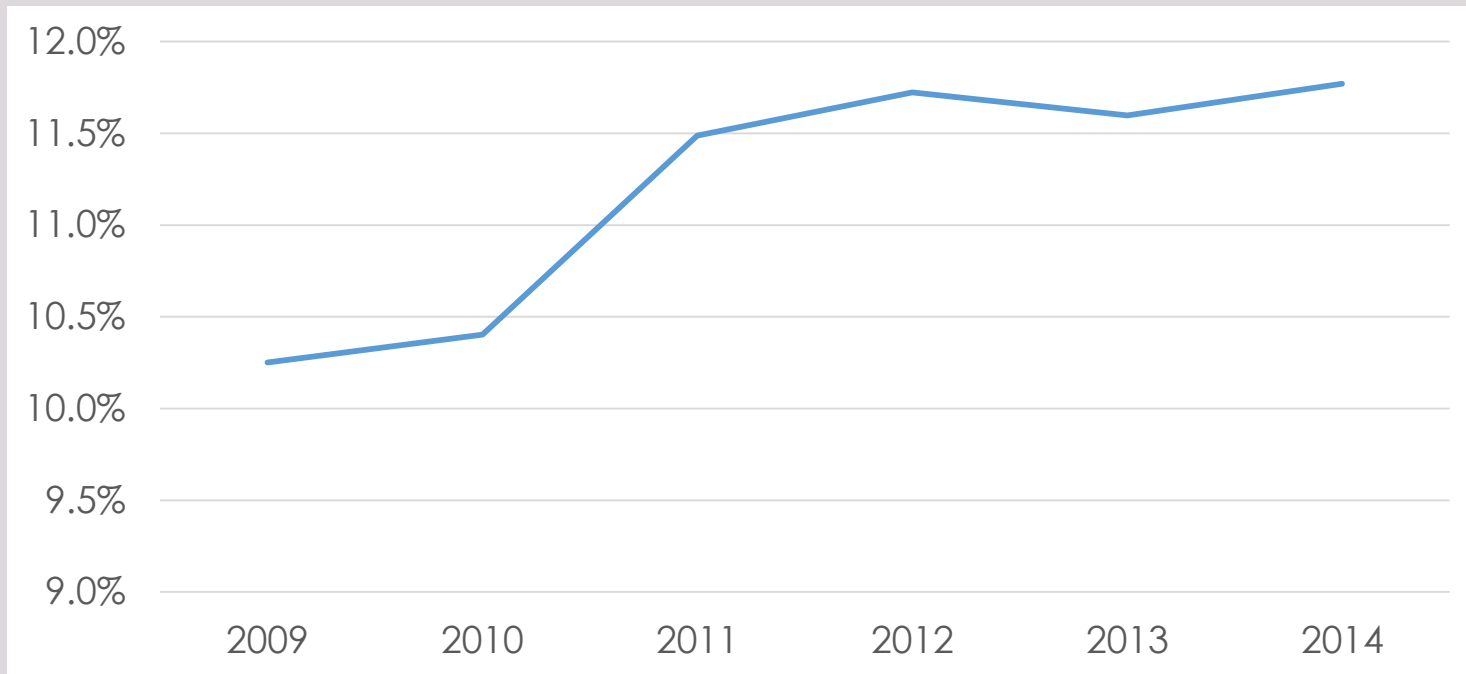
Financial Ratios – Cash Flow Liquidity



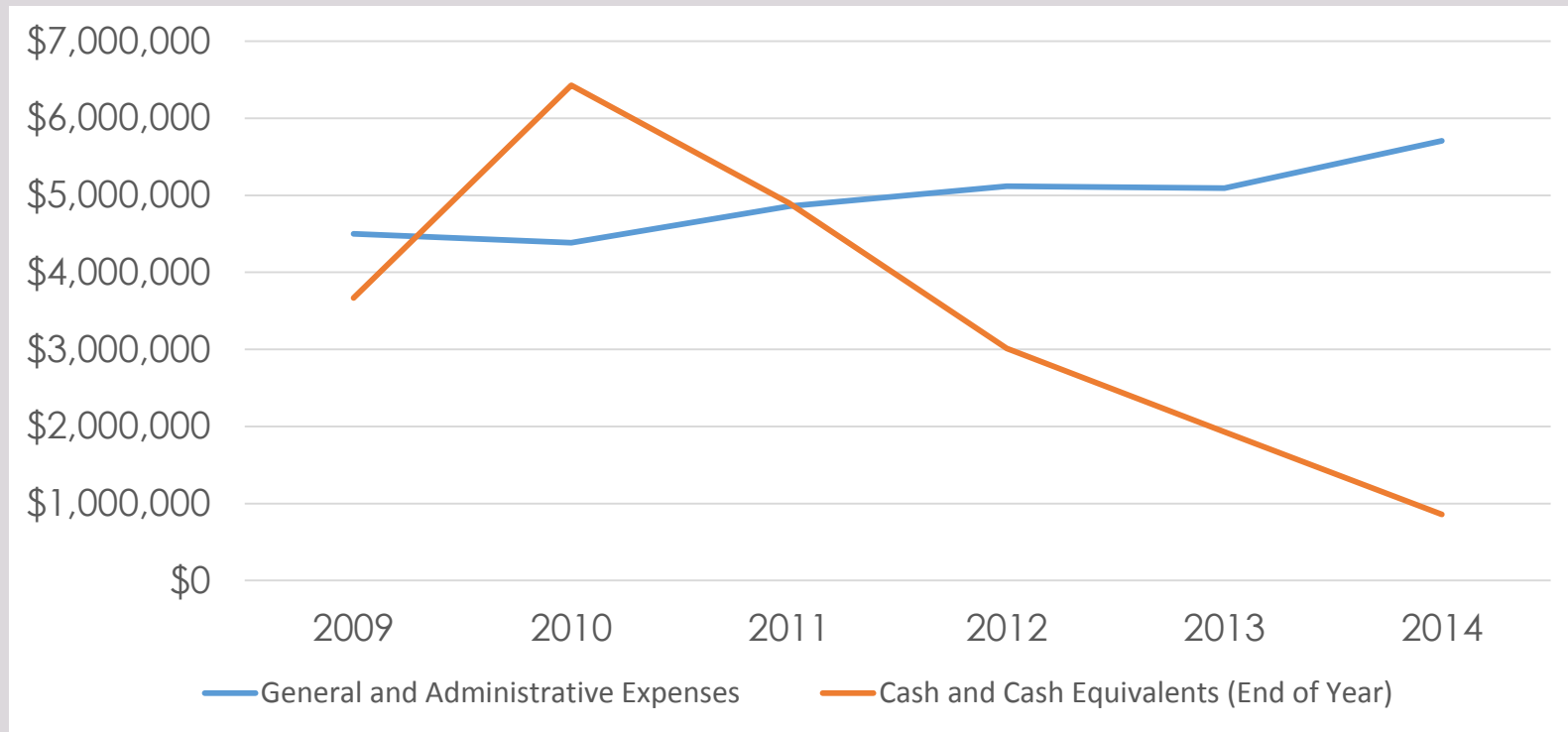
Financial Ratios – Debt Ratio



Financial Ratios – Management Expense Ratio



Financial Ratios – General and Administrative Expense to Cash and Cash Equivalents



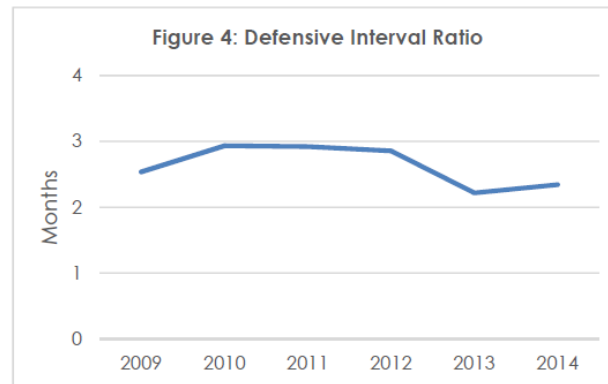
Audit Methodology



Defensive Interval Ratio—The defensive interval ratio measures how many months a nonprofit would be able to operate in the event that all of its funding sources ceased. This ratio considers the organization's current assets and total expenses.²⁹ We calculated RMHS's defensive interval ratio using the following formula:

$$\frac{\text{Cash + Receivables}}{\text{Average Monthly Expenses}}$$

According to the results displayed in Figure 4, RMHS's defensive interval ratio has been declining since 2012. For example, in 2014, RMHS could not remain solvent for more than two and one-half months without additional revenue. The standard for the nonprofit industry suggests that an organization should have between three and six months of cash reserves.



We found that RMHS's defensive interval ratio is lower than other CCBs. As Figure 5 illustrates, every other CCB we benchmarked against could operate for three months or more, whereas RMHS could operate just beyond two months. Accordingly, RMHS's clients may be at risk of not receiving services with inadequate cash reserves available to operate the organization.



Challenges of Auditing a Third Party



- **RMHS Management and Staff Turnover**
 - CEO, CFO, Controller, and RMHS staff
- **Unforeseen circumstances**
 - Difficulties in obtaining information
 - Civil Lawsuit



Current Impact



- New RMHS management correcting financial mismanagement
- Media coverage
- Calls/emails to Auditor's Office
- Invitations to public meetings
- Public Meeting hosted by the Auditor
- Concerns validated
- Catalyst for legislation



December 29, 2015, 4:59 pm

Groups demand legislation on services for those with intellectual disabilities

DENVER AND THE WEST

Denver audit finds "shameful" misspending for intellectually disabled

Findings include questionable spending on employee meetings and the salary of a former director

By Joey Bunch
The Denver Post

POSTED: 12/17/2015 12:28:28 PM MST | UP

Rocky Mountain Human



DENVER AND THE WEST

Bill would open books on Colorado disability funds, require audits

tax money but aren't subject

14 COMMENTS

Parents of Colorado children with disabilities fight for change

Angry families gather at Colorado's state Capitol ahead of the legislative session

By Jennifer Brown
The Denver Post

POSTED: 12/31/2015 01:28:10 PM MST | UPDATED: 4 MONTHS AGO

17 COMMENTS

The COLORADO INDEPENDENT

HOME THE MIX IN-DEPTH LITWIN KEEFE EVENTS THE BEATS

Rocky Mountain Human Services: No plans to fight open- records bill



Jeff Roberts, Colorado Fr
January 11, 2016 Just In

Denver Bilked Out Of Almost \$700K By Program For Disabled, Auditor Finds

BY COLORADO PUBLIC RADIO STAFF DEC 17, 2015



A nonprofit that works with the disabled **overcharged the City of Denver hundreds of thousands of dollars**, according Denver City Auditor Timothy O'Brien.

Letters and Emails



- “Dear Mr. O’Brien, I want to thank you for your staunch resolution to do the audit of Rocky Mountain Human Services. Our community needs more people like you who are courageous to tackle the status quo. Your results verified the unscrupulous handling of our tax dollars.”
- “Your audit of RMHS was so well done. It is, in my opinion, the tip of the iceberg. From HCPF to host homes, it is the most corrupt, inbred system in my opinion. No matter who we told, no one listened until RMHS could not pay their bills.”



Letters and Emails



- “Dear Mr. O'Brien and Staff, I wanted to sincerely thank you for being steadfast in your conviction to audit RMHS. I thank you and your staff for doing such a thorough job and making the audit results easy to comprehend for a layperson like myself. On behalf of my son, Mason, a RMHS client, I appreciate your department's dedication to ensuring that Denver taxpayer funds are used as intended for people with disabilities. The financial scandal that was found and documented has given credence to the years of concerns and complaints by parents and the disability community.”



Prospective Impact



- Federal Medicaid Rule Changes
 - Avoid conflict of interest
 - ✦ Not tied to geography
- New Case Management and Service Delivery Model
 - Two model proposition
 - ✦ Separation of case management and direct services
 - ✦ A CCB could provide both case management and direct services but not both components to the same individual



Senate Bill 16-038



- **Increase Transparency of CCBs:**
 - Publicize dates of Board meetings; post meeting minutes
 - Post Board members contact info on website
 - Board review and approval of financial statements
 - Annual presentation of financial audit results; post on website
 - Board member training
 - Provide (upon request) annual budget, annual summary of revenues and expenditures, financial controls
 - Post on website any contracts



Questions?

