



Finance Committee Summary

Wednesday, October 21, 2009

1:30 p.m.

3rd Floor Council Conference Room

Committee Members present: Faatz, Chair; Boigon, Vice-Chair; Brown, Hancock, Lehmann

Agenda:

- 1) *Discussion with City Council appointees to the Audit Committee (Robert Haddock and Charles Husted).*
- 2) *Denver Health & Hospital Authority (DHHA) 2009 Incentive Retirement Program*
- 3) *Denver County Court supplemental*

1) Discussion with City Council appointees to the Audit Committee:

Committee Discussion

Councilmember Faatz noted that the Audit Committee was the outcome of the 2007 voter approved changes to the Auditor's and Finance offices of the City. The seven-member Audit Committee was established to conduct oversight responsibilities for independent external audits and internal audit reviews, in addition to reviewing city contracts and the Auditor's annual work plan. The Councilwoman stated that two of the Audit Committee members are City Council appointments. She introduced Robert Haddock and Charles Husted, City Council appointees. The Councilwoman explained that Mr. Husted is officially retiring from the board when his terms ends on January 1, 2010, so she asked both appointees to come to the Committee to talk about the work of the committee the past two years and to enlighten the Council of any financial trends in the future.

Mr. Haddock retired from the State of Colorado as one of its auditors for sixteen years and said his doctorate was focused on performance auditing. Performance audits are important because it improves the effectiveness and efficiency of governmental operations, helps with making decisions on legislative matters, and provides cost savings. Mr. Haddock pointed out three types of inefficiencies: material weaknesses, significant deficiencies, and control deficiencies, adding that material weaknesses are the worst type of audit finding you can receive. Mr. Husted who worked as a public accountant/CPA for 15 years and was employed as an external auditor for Deloitte & Touche for many years said an example of a material weakness would be a lack of segregation of duties. For example, the same individual who is responsible for collection of checks would be the same person who deposits the checks. Mr. Haddock reported that Denver International Airport (DIA) was sited with material weaknesses because they did not have controls in place and were not completing certain financial statements and said he was quite incensed by this agency's

responses to their weaknesses and deficiencies. Mr. Husted added that in 2007, DIA found a \$135 million error from 1995, but noted that in fairness to DIA they are improving in their cooperation with the Audit Committee and staff. Councilmember Hancock asked what authority agencies have to deny any access to their information for these purposes. David Broadwell, City Attorney's Office, stated the charter grants the Auditor broad access rights to city records, but there could be exceptions to this. He said he would rather not opine on this particular question until he has time to confer with other attorney's in his office, but he will provide information on this question later. RD Sewald, Mayor's Office, said they will continue to monitor these things and he will assure that the Auditor has access to necessary documents. Denis Berckefeldt, Auditor's Office, said a letter from the Mayor's Office was received by the Auditor assuring him of agency cooperation and he would provide a copy to City Council.¹

Councilmember Boigon questioned if any of the appointments to this committee have SWAP transaction knowledge or experience. Mr. Husted said SWAP transactions tend to be complex, but City staff and external auditors (BKD) monitor these types of transactions closely. Mr. Haddock noted that a former appointee of the Audit Committee – Velma Rose – is an expert on these transactions, so they did have expertise on the board until recently. Councilmember Faatz said she would schedule a discussion on this issue at a later time with the Auditor's and Treasury staff.

Mr. Haddock outlined the following accomplishments of the Audit Committee:

- Denver Sheriff Inmate Trust Fund Administrative Expenses have refunded the General Fund \$185,461;
- DIA landing fees bill to the State in the amount of \$20 million; and
- DIA credit swaps (loss of \$12 million in 2008, but the loss is offset by other opportunities).

Mr. Husted added that enhanced input from City Council to the Auditor will help the auditors to focus on areas needed for improvement and the auditing report processes.

2) Denver Health & Hospital Authority (DHHA) 2009 Incentive Retirement Program:

Committee Action

The Committee approved amending Chapter 18 of the Denver Revised Municipal Code to change the definition of compensation for the Denver Employees Retirement Plan (DERP) to exclude from the calculation of retirement the payments made pursuant to the Denver Health and Hospital Authority 2009 Incentive Retirement Program for incentive-eligible Authority employees.

Committee Discussion

Steve Hutt, Denver Employees Retirement Plan (DERP), stated that this proposal changes the definition of compensation for DERP pension calculation purposes so that the retirement incentive payments made by Denver Health and Hospital Authority do not become part of the salary based on how the employees' DERP pension benefit is calculated. He stressed that this amendment would not cause any increase in the

¹ See attached letter to all Mayoral appointees from City Attorney David Fine.

individual's monthly DERP retirement benefit. Peg Burnett, Denver Health and Hospital Authority, said the hospital will have its own retirement incentive program for its employees and will be provided as a lump sum not to be included in the pension calculation. The authority and Career Service employees will have separate programs. Mr. Hutt added that some employees may get a portion from both retirement programs.

Ms. Burnett highlighted the hospital's incentive plan stating that a smaller payment for medical care would be paid in lieu of the \$500 per month and there would be a cap of \$50,000. Councilmember Boigon asked if the hospital's incentive would incur an immediate savings or would they experience savings over time? Ms. Burnett said the savings would be incurred immediately and over time.

Councilmember Robb stated her concerns with these plans are the healthcare costs associated with retirement. Mr. Hutt said DERP contributions for healthcare are based on a formula of number of years of service times the premium. The average length of service is 20 years. He explained that by ordinance retirees under the age of 65 are included with current employees and experience health increases the same as currently working employees. In addition, retirees have not experienced COLA or health insurance increases for five years.

Mr. Hutt reported that as of October 20, 2009, 212 retirement-eligible employees have contacted and submitted paperwork to DERP to take advantage of the early retirement incentive plan. As of yesterday, 19 Career Service Denver Health employees have submitted retirement paperwork which represents 13.6%. A total of 140 CSA employees at Denver Health are retirement eligible. He will keep Council updated on retirement numbers.

Councilmember Faatz asked where DERP and the hospital were at with the annual supplemental payment. Mr. Hutt said the discussion is considered confidential and he was not at liberty to discuss the issues publicly. The Councilwoman asked what the timeline was to come back to Council on this issue. Darlene Ebert, Denver Health legal counsel, said that information concerns details of the agreement as well and said it could not be discussed either. Mr. Hutt said they are working cooperatively to move forward and to reconcile the differences. Councilmember Faatz urged a timely and equitable conclusion.

3) Denver County Court supplemental.

Committee Action

The Committee approved a \$200,000 supplemental for Denver County Court to pay the Integral Recoveries contract for the remainder of 2009 for services related to collection of delinquent fines and fees.

Committee Discussion

Terry Cooke, County Court, explained that delinquent fines and fees are paid by defendants and are added to case costs and once paid go into the General Fund. This contractor receives 20% of the total dollar amount collected. Ed Scholz, Budget & Management, said this collection fee program was started this year and was not included in this year's budget, but has been included in the 2010 budget.

Councilmember Faatz asked why County Court was not using the citywide collection agency for these collections (Line Barger). Ms. Cooke said Line Barger is not equipped at this time to handle the large volume of collections electronically; they could not match the current 35% collection rate of Integral Recoveries, and they indicated to County Court they were not interested in lower amounts of collection cases (\$50 to \$100). They were also not interested in collecting for parking tickets. She reported that Integral Recoveries have 56,000 cases and have collected \$1.4 million on behalf of the City.