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AUDITOR’S LETTER

The objective of our audit of the Denver Preschool Program was to assess the effectiveness of the program’s efforts to increase access to and quality of preschool programs for Denver residents. This included assessing the City and County of Denver’s oversight and management of program administration and expenditure of funds derived from the Denver preschool tax. I am pleased to present the results of this audit.

The audit revealed the Office of Children’s Affairs has inadequately overseen the Denver Preschool Program and its financial management practices. Specifically, Denver Preschool Program Inc.—a nonprofit organization that operates independently but for which the city is still financially responsible—has accumulated over $20 million in unspent tax revenue designated for the Denver Preschool Program. Denver Preschool Program Inc.’s budgeting and spending practices do not fully align with city ordinance, and the Office of Children’s Affairs’ and Denver Preschool Program Inc.’s contract administration practices do not reflect leading practices for monitoring contract compliance. Further, the Denver Preschool Program Board of Directors lacks a governance structure—including written policies and procedures—that ensures effective program management.

Through stronger spending and budgeting practices, financial planning, contract monitoring, and nonprofit governance, the city will be able to ensure the effectiveness of Denver Preschool Program operations—including improved resource management and allocation practices. Our report lists several related recommendations.

This performance audit is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, “General Powers and Duties of Auditor,” and was conducted in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to the personnel at the Office of Children’s Affairs and Denver Preschool Program Inc. and to the Denver Preschool Program Board of Directors, who assisted and cooperated with us during the audit. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Denver Preschool Program
October 2019

Objective
To assess the effectiveness of the Denver Preschool Program’s efforts to increase access to and quality of preschool programs for Denver residents—including the City and County of Denver’s oversight and management of program administration and expenditure of funds derived from the Denver preschool tax.

Background
In 2006, Denver voters approved a city ordinance that provides for the governance and administration of 0.12 percent (now 0.15 percent) of the city’s sales and use tax to fund the Denver Preschool Program—which served over 4,000 children in 2017-18.

Since 2007, the program and related expenditures have been administered by Denver Preschool Program Inc., which has the mission of helping every child in Denver enter kindergarten ready to reach their full potential by “championing, funding, and increasing access to quality preschool” across the community.

As of February 2019, the city’s Office of Children’s Affairs is responsible for the financial oversight of the Denver Preschool Program, in addition to its duties of contract oversight.

REPORT HIGHLIGHTS

Highlights
Our audit found the city inadequately monitors the Denver Preschool Program’s financial management practices—including the accumulation of excessive revenue from the Denver preschool tax.

The City’s Insufficient Oversight Left the Excessive Accumulation of Denver Preschool Program Funds Unchecked, which Limited Opportunities to Expand Program Participation

- Denver Preschool Program Inc.’s budgeting and spending practices do not fully align with thresholds codified in city ordinance.
- Denver Preschool Program Inc. has accumulated over $20 million in unspent Denver preschool tax revenue but has no formal plan for this operating reserve. This impairs the organization’s ability to navigate risks that could adversely impact the program’s operations and financial performance.
- Denver Preschool Program Inc. does not have a well-defined policy to guide investment of the organization’s operating reserve balance. Because the operating reserve funds are in a commercial money market savings account, the return on investment was only about $50,000 from 2015 through 2018. We estimate the return on investment in that time frame could have been 10-20 times more if the money had been in a traditional investment portfolio instead.
- The Office of Children’s Affairs’ and Denver Preschool Program Inc.’s contract administration practices do not reflect leading practices for monitoring contract compliance, which impairs the city’s ability to ensure Denver Preschool Program Inc. and third-party vendors deliver in a manner that reflects the terms and conditions of the contracts and that prioritizes good stewardship of taxpayer dollars.
- The Denver Preschool Program Board of Directors lacks policies and procedures to ensure effective program oversight, to guide decision-making, and to support board operations.

For a copy of this report, visit www.denverauditor.org or contact the Auditor’s Office at (720) 913-5000.
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BACKGROUND

The Denver Preschool Program

Preschool programs offer learning opportunities to children before entering kindergarten. These programs seek to improve outcomes for young children through activities and experiences aimed at supporting cognitive and social development.¹

In 2006, City and County of Denver voters approved the creation of the Denver Preschool Program. As outlined in city ordinance, the purpose of the program is “to increase access to quality preschools” for all Denver families regardless of income or where they live in the city.² That year, voters also approved the Denver preschool tax, which set aside 0.12 percent of the city’s sales and use tax to fund program operations.

In 2014, voters reauthorized the program through 2026 and increased the portion of sales and use tax allocated to the Denver Preschool Program from 0.12 percent to 0.15 percent.³ In the 2017-18 academic year, the program served over 4,000 children.⁴

Governance and Administration – As illustrated in Figure 1 on the following page, the city’s Office of Children’s Affairs, its Department of Finance, and Denver Preschool Program Inc. (an independent nonprofit organization for which the city is financially responsible) each have roles and responsibilities related to the governance and administration of the Denver Preschool Program.

• Office of Children’s Affairs – The Office of Children’s Affairs is responsible for developing strategies to ensure the city’s “children, youth, and their families have opportunities to succeed.”⁵ Consistent with its vision and charter, Children’s Affairs provides a range of services to promote program effectiveness, collaboration, and innovation. In February 2019, the Office of Children’s Affairs assumed expending authority

³ City and County of Denver, Mayor’s 2019 Budget (2019), accessed Aug. 8, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Budget/2019/2019_Budget%20Book_V1-OnlineVersion-compressed.pdf. Sales and use taxes are a major revenue source for Denver—including for about 50 percent of the general fund revenue collected. This includes general sales tax, use tax, aviation fuel tax, short-term car rental tax, prepared food and beverage tax, and the special sales tax on retail marijuana. The city’s sales tax rate is 3.65 percent, with 3.5 percent distributed to the general fund and 0.15 percent distributed to the special revenue fund that supports the Denver Preschool Program.
⁴ An academic year is the period during which a child receives educational instruction or attends school. For program and reporting purposes, Denver Preschool Program Inc. defines the academic year as Sept. 1 through Aug. 31. Auditors also relied on this definition to analyze data trends for both child and provider participation in the Denver Preschool Program.
over the Denver Preschool Program Fund, in addition to its contract administration duties.\footnote{City and County of Denver, Council Bill No. 19-0085 (amending Ord. No. 309), accessed Aug. 12, 2019. https://denver.legistar.com/LegislationDetail.aspx?ID=3848458&GUID=71F4B291-8DD2-4204-8468-BA0CFD566877&Options=&Search and City and County of Denver, Rule 2.1 – Expending Authority Delegation, Fiscal Accountability Rules (revised 2012), accessed September 27, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal_Rules/chapter_2_Internal_Controls/Rules/Rule_2_1_Expending_Auth_Delegation.pdf. This rule requires all financial transactions to be authorized by an “expending authority” that is responsible for managing organizational funds and assuring that all transactions are reasonable, necessary, and consistent with city charter, ordinances, policies and procedures, and other applicable laws. The expending authority is identified in the ordinance that appropriates funds for business activities each year.}

- **Department of Finance** – The city’s Department of Finance manages the distribution of money from the special revenue fund created for the Denver Preschool Program. Finance Department staff in the Controller’s Office use sales and use tax revenue projections to prepare annual budget requests for the Denver Preschool Program. The Controller’s Office submits an annual program requisition to the Purchasing Division within the city’s Department of General Services, which sets aside funds for distribution to Denver Preschool Program Inc.\footnote{City and County of Denver, Mayor’s 2018 Budget (2018), accessed Aug. 12, 2019, https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Budget/2018/BudgetBook/Document_BudgetBookVolume1_2018.pdf. In 2018, responsibilities for managing the disbursement of Denver Preschool Program special revenue funds was transferred from the Treasury Division within the Department of Finance to the Controller’s Office. “About the Denver Purchasing Division,” City and County of Denver, Purchasing Division, accessed Aug. 12, 2019, https://www.denvergov.org/content/denvergov/en/purchasing-main-page.html. The Purchasing Division within the Department of General Services acquires goods and services for city agencies.}

Each month, the Controller’s Office creates and submits
purchase orders and invoices to the Purchasing Division to distribute the annual allotment of Denver Preschool Program special revenue funds in one-twelfth increments—as specified in the city’s contract with Denver Preschool Program Inc.

Finally, the Controller’s Office reconciles funds paid to Denver Preschool Program Inc. with actual sales and use tax revenue received annually. The Controller’s Office relies on this process to determine whether additional funds should be paid to Denver Preschool Program Inc. or whether there were overpayments that should be returned to the city.

- **Denver Preschool Program Inc. and Board of Directors** – The Denver Preschool Program and its related expenditures are administered by Denver Preschool Program Inc.—an independent nonprofit organization and “component unit” of the city. Component units are legally separate organizations for which the city is financially accountable.\(^8\)

Consistent with city ordinance, the articles of incorporation for Denver Preschool Program Inc. established a board of directors. The board of directors has 12 members—including a Denver City Council member appointed by the City Council and members who have been appointed by the mayor and confirmed by the City Council.\(^9\)

Also consistent with city ordinance, Denver Preschool Program Inc.’s board membership reflects a cross section of perspectives with representation from early childhood education providers, education advocates and experts, parents, and members of the business and nonprofit communities. Board members serve without compensation, are appointed to staggered three-year terms, and may serve no more than three terms.

To fulfill program requirements outlined in city ordinance, Denver Preschool Program Inc. has contracted with 19 third parties to support a variety of program and administrative operations—including services related to assisting families and providers, communication and outreach, program evaluation, and other efforts, as needed.

**Tuition Credits** – The Denver Preschool Program offers financial assistance—referred to as “tuition credits”—to all families who:

- Are Denver residents;
- Have a child who will be 4 years old prior to or on Oct. 1 of the

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\(^8\) City and County of Denver, Department of Finance, 2018 Comprehensive Annual Financial Report (Dec. 31, 2018).

\(^9\) Denver Revised Municipal Code § 11-21(b)(3). This section of city ordinance requires the nonprofit corporation administering the Denver Preschool Program to establish a board of directors of 11-15 members. City ordinance requires one member of the board to be a member of the Denver City Council appointed by the City Council. The remaining members are required to be appointed by the mayor and confirmed by the City Council.
current academic year; and

• Whose child will be enrolled in a participating preschool program.

Between 2015 and 2018, Denver Preschool Program Inc. awarded about $54 million in tuition credits for over 18,000 children. Tuition credits are awarded to families on a six-tier sliding scale. The amount of tuition credit awarded depends on multiple factors—including family income and household size, the quality rating of the preschool program attended, and the amount of time the child attends the program each day.\textsuperscript{10}

Appendix A shows reprints of the Denver Preschool Program’s monthly tuition credit scales for the 2017-18 and 2018-19 academic years. Also, Appendix C includes information on additional data trends related to tuition credits awarded by tier.

The Denver Preschool Program distributes tuition credits to participating preschool programs on behalf of parents or legal guardians. Tuition credits are distributed to the program the child attends, even if the child’s provider changes during the academic year.

To support the distribution of tuition credits, Denver Preschool Program Inc. entered into a five-year, $3.8 million contract with MetrixIQ, an early childhood education consulting firm. Consistent with the contract, MetrixIQ provides a range of services to manage Denver Preschool Program client transactions, including:

• Customer service and program enrollment;
• Web-based systems to support application processing, eligibility assessment, and preschool attendance reporting and payment calculation;
• On-call consulting services;
• Tuition scale development; and
• Program development.

\textsuperscript{10} Denver Revised Municipal Code § 11-22(4)(iii). This section of city ordinance requires the board of directors of the nonprofit organization administering the Denver Preschool Program to develop the tuition credit sliding scale, with the amount of the credit being related to the rated quality of the preschool provider with whom the credit is used.
Additionally, Denver Preschool Program Inc. has a contract with The Flahive Group LLC to assess and report on family, provider, and contractor compliance with program policies—particularly in the areas of program enrollment, eligibility, and the accuracy of tuition credit payments.

**Quality Improvement** – The Denver Preschool Program also offers quality-improvement support to participating preschool providers through direct grants or technical assistance. The grants or technical assistance support activities such as one-on-one teacher coaching to improve teacher-child interactions, funding to improve preschool curricula and classroom materials, and financial awards for classrooms that commit to high-quality teaching.11

Providers participating in the Denver Preschool Program are required to be evaluated and rated through both the Classroom Assessment Scoring System and the Colorado Shines Quality Rating and Improvement System to improve the service delivery and outcomes of early childhood education.12

- The Classroom Assessment Scoring System is a tool designed to evaluate teacher effectiveness. It offers resources for strengthening teacher-student interactions. Schools are rated on a scale of one through seven, based on structured observations by a certified observer. Denver Preschool Program providers are required to receive a Classroom Assessment Scoring System assessment and rating every two years to remain eligible for program participation.

- The Colorado Shines Quality Rating and Improvement System is a statewide ratings process used to assess the quality of all licensed early childhood programs. Preschool providers are rated on a scale of one to five—with level one representing programs that are licensed and in good standing to provide services in Colorado and with levels three through five representing the highest levels of quality child care.

Providers that have achieved ratings between three and five have demonstrated success in helping staff attain workforce qualifications and professional development, in developing family partnerships, and in cultivating sound leadership, administration, learning environments, and child health. Colorado Shines encourages early childhood and learning programs to make ongoing quality improvements to pursue

11 In the 2018-19 academic year, the Denver Preschool Program expanded its quality improvement efforts to include classrooms for 3-year-olds—allocating $700,000 annually through the 2020-21 academic year.

12 Since 2013, all preschool providers participating in the Denver Preschool Program are required to receive a Classroom Assessment Scoring System rating.
higher ratings and, thus, receive increased access to grant funding for early childhood programs.

Between 2015 and 2018, the Denver Preschool Program reported spending about $7.8 million to support quality-improvement efforts for over 250 eligible preschool providers. In the 2018-19 academic year, the program expanded its quality-improvement efforts to include classrooms for 3-year-olds—allocating $700,000 annually through the 2020-21 academic year. Appendix C details additional data trends related to the Denver Preschool Program’s spending on quality improvement.

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FINDING

The City’s Insufficient Oversight Left the Excessive Accumulation of Denver Preschool Program Funds Unchecked, which Limited Opportunities to Expand Program Participation

Auditors found Denver Preschool Program Inc. has accumulated over $20 million in unspent Denver preschool tax revenue but has not established a well-defined policy for managing the program’s operating reserve. Further, Denver Preschool Program Inc. has no formal plan to guide investment of the operating reserve.

Auditors also found the Office of Children’s Affairs’ and Denver Preschool Program Inc.’s contracting practices do not reflect leading practices for monitoring contract compliance. Finally, the Denver Preschool Program Board of Directors lacks critical policies and procedures that ensure effective program oversight, to guide decision-making, and to support board operations.

Altogether, this reflects unchecked oversight of the Denver Preschool Program, which prevents the city from leveraging opportunities to expand eligible Denver residents’ access to quality preschools.

Weaknesses in Denver Preschool Program Financial Management Have Resulted in over $20 Million in Unused Tax Revenue

In analyzing Denver Preschool Program finances, auditors found that Denver Preschool Program Inc.’s financial management practices did not fully align with spending thresholds in city ordinance—which contributed to the accumulation of as much as $23.2 million on Dec. 31, 2018, in unspent tax revenue and missed opportunities for investment.

As discussed in the background of this report, city ordinance provides for the governance and administration of 0.15 percent of the city’s sales and use tax to fund the Denver Preschool Program. As shown in Figure 2 on the next page, the Denver Preschool Program received an estimated $83.2 million in Denver preschool tax revenue between 2015 and 2018—an average of nearly $21 million per year.

To ensure Denver preschool tax revenue supports the Denver Preschool Program’s mission of increasing access to quality preschool programs for Denver residents, city ordinance establishes spending thresholds for program services and administrative support.14

Specifically, city ordinance stipulates that at least 93 percent of Denver preschool tax revenue should be spent to support program services. These services include:

- Tuition credits administered to any Denver resident who is a parent or legal guardian of any preschool-aged child (who is also a Denver resident) to be used to enroll the child in preschool in the year prior to the year in which they will be eligible for kindergarten
- Outreach to parents and the Denver community, and assistance with enrollment in preschools
- Technical assistance and direct grants to preschool providers for improving the quality of preschool programs and services
- Contracting with qualified experts to design and assist with the implementation of a quality-improvement system for preschools, including an objective quality-rating system for preschools
- Measurement of the Denver Preschool Program’s performance and the preparation of reports to city officials and to the public on the performance of the program.

Further, city ordinance states that no more than 7 percent of the Denver preschool tax revenue should be spent on administrative expenses—including staff salaries, rent, insurance, accounting or legal fees, and other routine operating expenses.\(^\text{15}\)

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\(^{15}\) Denver Revised Municipal Code § 11-22.
Auditors’ analysis revealed Denver Preschool Program Inc. does not prepare its annual budgets in a manner consistent with city ordinance thresholds for program services.

Denver Preschool Program Inc.’s Budgeting and Spending Practices Do Not Fully Align with City Ordinance

Auditors examined Denver Preschool Program Inc.’s budgets and audited financial statements between 2015 and 2018 and found that the nonprofit organization’s budgeting and spending practices do not conform with the city ordinance spending requirements for program services—which are also outlined in the city’s contract with the Denver Preschool Program.

Denver Preschool Program Inc.’s annual budgets—prepared using the city’s annual sales and use tax revenue projections—contain estimates of income and spending on program services and administrative expenses. Auditors’ analysis revealed Denver Preschool Program Inc. does not prepare its annual budgets in a manner consistent with city ordinance thresholds for program services.

As shown in Table 1, we found that Denver Preschool Program Inc. budgeted between $16.8 million and $19.6 million between 2015 and 2018. This represents about 83 percent to 91 percent of projected Denver preschool tax revenue annually—which falls well beneath the 93 percent program services threshold identified in city ordinance.

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Estimated Denver Preschool Tax Revenue</th>
<th>Amount Budgeted for Program Services</th>
<th>Percent of Estimated Denver Preschool Tax Revenue Budgeted for Program Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$19,023,000</td>
<td>$16,826,000</td>
<td>88.5%</td>
</tr>
<tr>
<td>2016</td>
<td>$20,171,603</td>
<td>$16,770,000</td>
<td>83.1%</td>
</tr>
<tr>
<td>2017</td>
<td>$20,602,245</td>
<td>$17,458,000</td>
<td>84.7%</td>
</tr>
<tr>
<td>2018</td>
<td>$21,562,419</td>
<td>$19,552,000</td>
<td>90.7%</td>
</tr>
</tbody>
</table>

Source: Auditor’s Office analysis of the City and County of Denver mayor’s budgets and Denver Preschool Program Inc.’s annual budgets from 2015 through 2018.

Further, to determine the extent to which the Denver Preschool Program’s actual spending aligns with spending requirements in city ordinance, auditors analyzed Denver Preschool Program Inc.’s financial records from Jan. 1, 2015, through Dec. 31, 2018. As shown in Figure 3 on the following page, Denver Preschool Program Inc. spent about $3.3 million on administrative expenses between 2015 and 2018.

Overall, administrative spending increased during this period, ranging
from a low of $558,000 in 2015 to a high of about $1.4 million in 2018. This represents about 3 percent to 6 percent of the Denver preschool tax allocated, which is well within the 7 percent administrative spending limit established by city ordinance.

Though Denver Preschool Program Inc.’s administrative spending aligned with the maximum threshold, auditors found that spending on program services routinely failed to meet the 93 percent minimum threshold specified in city ordinance.

As Figure 3 above shows, Denver Preschool Program Inc. spent about $69 million on program services between 2015 and 2018. Program services spending during this period ranged from a low of about $16 million in 2015 to a high of $19.1 million in 2018. Between 2015 and 2016, spending on program services represented about 77 percent to 89 percent of the Denver preschool tax revenue allocated—which did not meet the 93 percent minimum spending threshold required.

Auditors’ detailed analysis of Denver Preschool Program’s audited financial statements revealed the organization increased spending on multiple program services between 2015 and 2018. This included spending related to tuition credits and quality improvement—which accounted for about 89 percent of total spending on program services between 2015 and 2018.

As shown in Figure 4 on the following page, spending for tuition credits increased from roughly $12.9 million in 2016 to about $14.6 million in 2018—an increase of almost 14 percent. Similarly, spending on quality-
improvement activities increased from almost $1.2 million to nearly $2.5 million between 2015 and 2017. Quality-improvement spending slightly decreased between 2017 and 2018, from almost $2.5 million to roughly $2.3 million—a difference of about $155,000.

Even with increased spending on multiple program services between 2015 and 2018, Denver Preschool Program Inc. did not spend money on program services at the required levels. However, auditors identified some contextual factors beyond Denver Preschool Program Inc.’s control that could be impeding the organization’s efforts.

As shown in Figure 5 on the next page, Denver Preschool Program Inc. reported that the overall number of children participating in the program has steadily decreased since the 2015-16 academic year from almost 5,100 children to about 4,700.

Through our analysis of U.S. Census Bureau data between 2015 and 2018, we also found a decline in the number of Denver families reporting incomes below $35,000—from an estimated 33,700 households to 30,200 households, a decrease of about 10 percent. This is important because children in families reporting lower incomes made
up 61 percent of Denver Preschool Program applicants between academic years 2014-15 and 2017-18. These applicants received about 80 percent of the tuition credit subsidies for the same period.

Though the number of children participating in the program decreased during this period, as shown in Figure 6, auditors’ analysis revealed that

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Source: Denver Preschool Program Inc.’s annual reports from 2015 through 2018.

Note: Data is from Sept. 1 through Aug. 31 each academic year unless otherwise noted.

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Source: Auditor’s Office analysis of Denver Preschool Program data.

Note: Data is from Sept. 1 through Aug. 31 each academic year unless otherwise noted. This figure includes monthly tuition credits for children enrolled in full-day preschool services.
program decision-makers attempted to address this demographic shift beginning in the 2014-15 academic year by increasing tuition credit subsidies for children enrolled in full-day preschool programs.

When asked about Denver Preschool Program Inc.‘s failure to budget and spend in accordance with city ordinance, organization management confirmed the organization was operating under a different interpretation of the city ordinance. Specifically, Denver Preschool Program Inc. representatives assumed the city ordinance imposed an upper limit of 93 percent on program services spending—as opposed to imposing a minimum threshold of spending.

Denver Preschool Program Inc.’s lack of compliance with these spending thresholds is a contributing factor to the excessive accumulation of operating reserves.

RECOMMENDATION 1.1

Align Practices with City Ordinance – The executive director of the Office of Children’s Affairs should work with Denver Preschool Program Inc. to ensure its budgeting and spending practices conform with thresholds established in city ordinance and the city’s contract with the Denver Preschool Program.

Agency Response: Agree, Implementation Date – March 31, 2020

Denver Preschool Program Inc. Does Not Have a Well-Defined Policy for Its Operating Reserve

Further, auditors’ analysis of the Denver Preschool Program’s audited financial statements between 2015 and 2018, as well as related policies and procedures, revealed that the organization does not have a policy for the management and use of its operating reserves.

“Operating reserves" are unrestricted dollars that nonprofits set aside to stabilize finances or mitigate financial risks stemming from unexpected cash shortages, expenses, or losses. In addition to buffering organizations against financial risks, operating reserve funds can be used to fund new priorities and provide organizations the financial latitude to take advantage of strategic opportunities in the market.16

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Though Denver Preschool Program Inc.’s operating reserve balance fluctuated between 2015 and 2018, as illustrated in Figure 7, the operating reserve balance steadily increased from about $8 million in 2015 to a high of $23.2 million, as of Dec. 31, 2018. The 95 percent increase of the operating reserve balance from $8 million to $15.6 million between Jan. 1, 2015, and Dec. 31, 2015, coincides with a voter-approved Denver preschool tax increase. Effective Jan. 1, 2015, the Denver preschool tax increased from 0.12 percent of the city’s sales and use tax revenue to 0.15 percent.

Though the 2015 tax rate change contributed to the increased operating reserve balance, auditors’ analysis of Denver Preschool Program Inc.’s audited financial statements revealed that the reserve balance continued to grow between 2016 to 2018. Specifically, the operating reserve grew by almost half, from $15.6 million in 2015 to a high of $23.2 million in 2018—an increase of about 49 percent overall during that period.

Further, Denver Preschool Program Inc.’s $23.2 million operating reserve balance represented nearly 85 percent of the organization’s $24.7 million ending cash balance as of Dec. 31, 2018.

As also shown in Figure 7, Denver Preschool Program Inc. identified target reserve levels in its annual budgets between 2015 and 2018. These reserve targets ranged from a low of $11 million in 2015 to a high of almost $12.9 million in 2018. Despite having identified annual reserve targets, Denver Preschool Program Inc. did not have a well-defined policy for determining the appropriateness of its targets, and the...
organization routinely exceeded them. Between 2016 and 2018, Denver Preschool Program Inc. consistently exceeded its reserve targets—at a minimum by over $1.5 million in June 2016 to as much as $5.3 million in April 2018.

Though the Denver Preschool Program Board of Directors recently approved the implementation of a gap scholarship program that would leverage Denver Preschool Program Inc.’s operating reserve funds to provide additional tuition assistance to Denver’s lowest income families, the organization has not developed a formal policy for its operating reserve.

When asked about the absence of a well-defined operating reserve policy, Denver Preschool Program Inc. representatives said the organization relies on the operating reserve targets established in its annual budgets to guide its operating reserve planning, as the budgets are approved by the organization’s board of directors.

Denver Preschool Program Inc.’s annual budgets state that the operating reserve is designed to provide needed funding to maintain:

- Program offerings at current levels; and
- Ensure there is adequate organizational capacity to deliver programming in a quality and effective manner

Denver Preschool Program Inc. representatives said the organization calculates its operating reserve targets assuming a 20 percent revenue loss per year for a period of three years. Leading practices for nonprofit management advise organizations to adopt a well-defined operating reserve policy that:

- Reflects a five-year financial forecast for all aspects of the organization;
- Identifies and quantifies risks to the organization’s short- and long-term financial planning—including factors that are beyond management’s control; and
- Establishes target reserve levels and funding approaches.17

Additionally, leading practices also recommend that an operating reserve policy articulate roles and responsibilities for:

- Authorizing operating reserve spending;
- Monitoring the operating reserve balance; and

The absence of a formal operating reserve plan reflects wasteful resource allocation and management, which could compromise the effectiveness of the Denver Preschool Program.

- Reporting on the use of the operating reserve.\(^{18}\)

The lack of a formal, well-defined operating reserve policy that reflects sound budgeting and financial planning impairs Denver Preschool Program Inc.’s ability to navigate risks that could adversely impact the organization’s financial performance.

Moreover, the U.S. Government Accountability Office defines waste as “the act of using or expending resources carelessly, extravagantly, or to no purpose.”\(^{19}\) U.S. Government Accountability Office guidance also states: “Waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.”\(^{20}\)

The absence of a formal operating reserve policy reflects wasteful resource allocation and management, which could compromise the effectiveness of the Denver Preschool Program—including resulting in missed opportunities to expand tuition credit subsidies to more Denver families or to provide quality-initiative support to preschool providers.

Auditors also found the city had not fully exercised financial oversight over Denver Preschool Program Inc. The city’s contract with Denver Preschool Program Inc. contains a “budget/carry forward” provision, which states distributions of the tax revenue that are not used may be carried forward by Denver Preschool Program Inc. and spent on administrative expenses or program services. The contract also states that if unspent funds exceed 100 percent of the anticipated expenses for the ensuing year, the city—in consultation with Denver Preschool Program Inc.—may reduce the appropriation accordingly.

Auditors’ analysis of Denver Preschool Program Inc.’s annual budgets and financial data indicate the organization’s current operating reserve balance is about 99.8 percent of anticipated expenses for 2019. This means Denver Preschool Program Inc. is nearing the threshold where the city may need to consider reducing the appropriation.

In addition to the city’s contract with Denver Preschool Program Inc., guidance from the Governmental Accounting Standards Board states that governments are financially responsible for their component

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\(^{19}\) U.S. Government Accountability Office, GAO-14-704G, “Standards for Internal Control in the Federal Government” (2014), accessed July 8, 2019, https://www.gao.gov/assets/670/665712.pdf. These standards may also be adopted by state, local, and quasi-governmental entities and not-for-profit organizations as a framework for an internal control system. Internal controls are policies, procedures, techniques, and mechanisms that help achieve an organization’s objectives and address identified risks.

However, officials from the city’s Department of Finance and the Office of Children’s Affairs acknowledged that neither organization had evaluated the appropriateness of Denver Preschool Program Inc.’s operating reserve balance nor its compliance with the “budget/carry forward” provision of the contract.

RECOMMENDATION 1.2

Establish Well-Defined Operating Reserve Policy – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should direct Denver Preschool Program Inc. to develop and adhere to a well-defined operating reserve policy that establishes and maintains an operating reserve that supports program operations in a manner consistent with city ordinance and contract terms.

The operating reserve policy should also reflect leading management practices for nonprofit management—including incorporating a five-year financial forecast for all aspects of the organization, developing methods for understanding risks to the organization’s short- and long-term financial planning, and establishing target reserve levels and funding approaches. The operating reserve policy should also define roles and responsibilities for authorizing spending, monitoring balances, and reporting on use of the operating reserve.

Agency Response: Agree, Implementation Date – March 31, 2020

RECOMMENDATION 1.3

Monitor Program Appropriations – The executive director of the Office of Children’s Affairs, the Denver Preschool Program Board of Directors, and the president and chief executive officer of Denver Preschool Program Inc. should continuously monitor and consult with the city’s Department of Finance to determine the extent to which Denver Preschool Program appropriations should be adjusted in compliance with “budget/carry forward” provisions outlined in the city’s contract with Denver Preschool Program Inc.

Agency Response: Agree, Implementation Date – March 31, 2020

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RECOMMENDATION 1.4

Review Program Distribution Formula – The executive director of the Office of Children’s Affairs, the Denver Preschool Program Board of Directors, and the president and chief executive officer of Denver Preschool Program Inc. should consult with the city’s Department of Finance and the City Attorney’s Office to determine whether the distribution formula established in the city’s contract with Denver Preschool Program Inc. should be amended to more appropriately reflect the program’s current resource needs.

Agency Response: Agree, Implementation Date – March 31, 2020

Denver Preschool Program Inc. Does Not Have an Investment Policy nor a Formal Investment Plan

In addition to the lack of an operating reserve plan, insufficient financial planning has contributed to missed investment opportunities for Denver Preschool Program Inc.

Denver Preschool Program Inc.’s operating reserve balance is maintained in a commercial money market savings account that had an annual percentage yield of about 0.05 percent to 0.15 percent from January 2015 through December 2018.

To understand the appropriateness of Denver Preschool Program Inc.’s investment approach, auditors analyzed trends related to Denver Preschool Program Inc.’s investment performance, including yield and rate of return—particularly as compared to alternative investment options, including those managed through the Cash, Risk, and Capital Funding Division of the city’s Department of Finance.

Through this analysis, auditors found that Denver Preschool Program Inc. has missed opportunities to obtain better rates of return on unused city funds. As illustrated in Figure 8 on the following page, between 2015 and 2018, Denver Preschool Program Inc.’s operating reserve earned a total return on investment of almost $50,000 through the organization’s money market funds.

However, when comparing Denver Preschool Program Inc.’s current rate of return to alternative investment options, we estimate that the overall return could have been substantially higher.

In fact, as shown in Figure 8, Denver Preschool Program Inc.’s total return on investment could have ranged between $568,000 and $1.1 million between 2015 and 2018 if the money had been invested in either
the city’s investment portfolio or ColoTrust, an investment option for local governments.

Though Denver Preschool Program Inc. representatives acknowledged the organization has not developed investment policies nor a formal plan, they said their investment practice was to ensure funds remained available as needed and with minimal financial risk.

Guidance from the Colorado Nonprofit Association states that nonprofit organizations should adopt a sound investment policy that aligns the investment portfolio with the organization’s strategic goals and risk tolerance. Specifically, nonprofit investment plans should identify opportunities for community impact and articulate the organization’s resource needs.22

Further, the city’s own investment policy stipulates that the investment of city funds should aim to obtain the “highest investment return consistent with the preservation of principal and provision of the liquidity necessary for daily cash-flow demands.” Therefore, to maximize the return on taxpayer investment in the Denver Preschool Program, Denver Preschool Program Inc. needs a sound investment plan.

RECOMMENDATION 1.5

Establish a Formal Investment Policy – The Denver Preschool Program Board of Directors should direct Denver Preschool Program Inc. to develop and adhere to a formal, documented investment policy consistent with city ordinance, the city’s investment policy, and leading nonprofit management practices—including identifying opportunities for community impact and articulating the organization’s resource needs.

Agency Response: Agree, Implementation Date – March 31, 2020

The City's and the Denver Preschool Program's Contract Monitoring Practices Are Insufficient to Ensure Adequate Oversight

Auditors found the Office of Children’s Affairs and Denver Preschool Program Inc. have implemented some contract monitoring processes; however, those are not enough to ensure contracted entities—such as Denver Preschool Program Inc. and third-party vendors—are meeting their contractual and legal obligations.

City ordinance stipulates that a nonprofit organization in good standing under state law must administer the Denver Preschool Program.23

City ordinance also states that expenditures of Denver preschool tax revenue must be done in accordance with a contract between the city and the nonprofit organization overseeing the program. Consistent with this requirement, the city entered into a contract with Denver Preschool Program Inc, as discussed in the background section of this report.24

“Contract administration” includes all monitoring and administration activities from when the contract is awarded, and it continues through the life of the contract until the work is completed and accepted and the contract ends. “Contract monitoring” is a component of contract administration involving observing and assessing contractors’ performance over time.25

The city’s contract with Denver Preschool Program Inc. designates the Office of Children’s Affairs as the contract administrator for this agreement. Specifically, the city’s contract designates the Office of Children’s Affairs to monitor all activities related to the agreement—including inspecting records, reviewing procedures and practices, examining internal evaluation procedures, and conducting on-site observations.

24 The original contract entered on July 3, 2007, between the City and County of Denver and Denver Preschool Program Inc. was amended in October 2007, August 2009, and February 2015.
City ordinance also authorizes Denver Preschool Program Inc. to enter into contracts with other entities for program services and support. Accordingly, Denver Preschool Program Inc. awarded 19 vendor contracts to meet its contractual obligations with the city to administer the Denver Preschool Program. The city’s contract with Denver Preschool Program Inc. stipulates that the organization is responsible for overseeing the performance of contracts it awards to ensure that terms and conditions are met.

Leading practices state that effective contract monitoring can mitigate risks and ensure the terms and conditions of an agreement are met. Table 2 summarizes several leading practices for contract administration and monitoring identified by the National Association of State Procurement Officials.

<table>
<thead>
<tr>
<th>Leading Practices</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract administration plan</td>
<td>A comprehensive plan that identifies and describes critical elements and activities required to ensure effective contract administration and quality assurance, such as a detailed scope of work that includes deliverables</td>
</tr>
<tr>
<td>Policies and procedures</td>
<td>A written document that includes methods for monitoring vendors’ performance</td>
</tr>
<tr>
<td>Roles and responsibilities</td>
<td>Assigned roles and responsibilities for contract administration and monitoring</td>
</tr>
<tr>
<td>Performance evaluation</td>
<td>Performance evaluation methods, including performance measures and milestones</td>
</tr>
<tr>
<td>Fiscal oversight</td>
<td>Fiscal oversight to ensure expenditures are authorized, paid, and documented in accordance with contract terms and conditions</td>
</tr>
<tr>
<td>Risk assessment</td>
<td>Risk assessment to identify potential problems and solutions associated with noncompliance</td>
</tr>
<tr>
<td>Data collection and reporting</td>
<td>Methods for data collection, monitoring, and reporting—including record inspection, site visits, and processes and time frames for reporting vendor performance</td>
</tr>
<tr>
<td>Record keeping</td>
<td>Comprehensive, accessible records of contract administration duties and vendors’ performance</td>
</tr>
<tr>
<td>Training</td>
<td>Training to ensure contract administration staff have the appropriate knowledge to manage and monitor contract performance</td>
</tr>
</tbody>
</table>

Source: National Association of State Procurement Officials.

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Moreover, the city’s Executive Order 8 reiterates contract administration responsibilities for Denver’s own city agencies—including establishing and implementing policies and procedures for monitoring contract performance to ensure compliance with established terms and conditions.28

Both the Office of Children’s Affairs and Denver Preschool Program Inc. have adopted some leading practices. For example, both organizations have:

- Developed detailed scopes of work for Denver Preschool Program contracts;
- Designated dedicated contract administrators; and
- Required performance reporting.

However, auditors’ evaluation of the Office of Children’s Affairs’ and Denver Preschool Program Inc.’s contract administration practices revealed that those activities are not enough to ensure contracted entities meet their contractual and legal obligations.

Though the Office of Children’s Affairs and Denver Preschool Program Inc. adopted several sound practices for contract administration and maintaining regular communication with vendors through periodic meetings—neither has adopted the following leading contract administration practices:

- A contract administration plan that details methods and responsibilities for monitoring contract compliance
- Written policies and procedures to ensure consistent, high-quality contract monitoring, including guidance for record keeping
- Processes for data collection and on-site monitoring, including random inspections of vendor records and service delivery to ensure all terms of the contract are fulfilled
- Processes for assessing contract risks

When asked why the agency’s contract administration and monitoring did not reflect several leading practices, Office of Children’s Affairs officials said the office had not implemented these practices because it had not been assigned contract administration and oversight responsibilities until February 2019. At that time, city ordinance designated financial oversight responsibilities for the Denver Preschool Program to the Office of Children’s Affairs, in addition to contract oversight responsibilities. Officials also acknowledged that their contract

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The original contract—awarded in 2007—clearly established the Office of Children’s Affairs as the contract administrator for the city’s contract with Denver Preschool Program Inc. administrator position was not assigned to manage the city’s contract with Denver Preschool Program Inc. until that time—even though the position was created in 2017.

However, the legislation passed by City Council in February 2019 only reassigned financial oversight of the Denver preschool tax from the Department of Finance to the Office of Children’s Affairs. The original contract—awarded in 2007—clearly established the Office of Children’s Affairs as the contract administrator for the city’s contract with Denver Preschool Program Inc.

Therefore, the agency should have been aware of its contract administration responsibilities for programmatic operations since 2007 and should have established policies and procedures for monitoring, as required by Executive Order 8.

When auditors asked Denver Preschool Program Inc. to explain why the organization’s contract administration and monitoring did not reflect several leading practices, representatives stated that the organization relies heavily on the knowledge and experience of its staff to ensure contract compliance.

Without a detailed contract administration plan and monitoring methods that reflect leading practices, the city is unable to ensure Denver Preschool Program Inc. and third-party vendors are delivering in a manner that reflects the terms and conditions of the contracts and that prioritizes good stewardship of taxpayer dollars.

Moreover, inadequate contract monitoring likely contributed to a limited understanding of Denver Preschool Program Inc.’s resource allocation and to management challenges and the impact of those practices on program effectiveness. Better contract monitoring would help the city take timely and appropriate action if Denver tax revenue reserve funds are not spent in accordance with legal requirements.

**RECOMMENDATION 1.6**

**Establish Policies for Contract Monitoring (Office of Children’s Affairs)** – The executive director of the Office of Children’s Affairs should develop and adhere to a detailed contract administration plan that includes contract-specific policies and procedures to guide contract monitoring activities related to the city’s contract with Denver Preschool Program Inc. The policies and procedures should reflect contract monitoring guidelines established in the city’s Executive Order 8 and leading practices for monitoring methods, record keeping, and assessing risk.

**Agency Response: Agree, Implementation Date – March 31, 2020**
RECOMMENDATION 1.7

Establish Policies for Contract Monitoring (Denver Preschool Program Inc.) – The Denver Preschool Program Board of Directors should direct the president and chief executive officer of Denver Preschool Program Inc. to develop and adhere to a detailed contract administration plan that includes contract-specific policies and procedures to guide contract monitoring activities. The policies and procedures should reflect contract monitoring guidelines established in the city’s Executive Order 8 and leading practices for monitoring methods, record keeping, and assessing risk.

Agency Response: Agree, Implementation Date – May 31, 2020

The Denver Preschool Program Board of Directors Needs to Strengthen Its Governance Practices to Ensure Effective Program Management

The Colorado Revised Nonprofit Corporation Act establishes provisions for nonprofit governance and states that members of nonprofit boards of directors should be aware of fiduciary duties or legal obligations that impact how the board must fulfill its duties—including financial responsibilities that “protect charitable assets held for the benefit of the public.” Further, the Colorado Nonprofit Association—an organization that educates, informs, and networks with Colorado nonprofits about leading management practices—states that: “In addition to what is required by state law, a nonprofit’s articles of incorporation, bylaws, and board policies may provide more specific policies and procedures to govern the organization’s activities.”

City ordinance requires the nonprofit organization that administers the Denver Preschool Program to establish a board of directors consisting of 11-15 members. Consistent with this requirement, Denver Preschool Program Inc. has a 12-person board with a membership that includes a Denver City Council member appointed by the City Council and mayoral appointees who are confirmed by City Council. Members of the board are appointed to staggered three-year terms and can serve no more than three terms.

Despite having met this legal requirement, the Denver Preschool Program Board of Directors is missing key policies and procedures to ensure effective program oversight. Additionally, the board lacks a formal self-evaluation process and needs to improve its record-keeping practices.


The Denver Preschool Program Board of Directors Lacks Several Key Policies and Procedures

The Denver Preschool Program Board of Directors has adopted three formal, written policies and procedures that guide its decision-making and support board operations. These policies include:

- Articles of incorporation, as required by city ordinance;
- Bylaws; and
- Conflict of interest.

However, the board of directors lacks several policies that align with leading nonprofit management practices, such as those related to whistleblower protection, board meeting attendance, financial literacy training for board members, and review of the governance structure.

- **Whistleblower Protection** – The Denver Preschool Program cites the “Equal Employment Opportunity and Harassment Complaint Procedure” in the program’s employee handbook as its whistleblower policy. However, the referenced procedure does not provide specific protection for those who report illegal or unethical workplace activity. Instead, the procedure provides protection only for those who complain about a violation of the equal employment opportunity policy or who complain about harassment based on a protected class.

  True whistleblower policies extend beyond that and provide protection for those who report activities like fraud or corruption. Nonprofits should implement a whistleblower policy with specific procedures for reporting violations to ensure those making reports are protected from repercussions, according to the Colorado Nonprofit Association.\(^ {31} \)

**Formal whistleblower policies protect board members and staff, should they witness inappropriate workplace behavior.**

- **Meeting Attendance** – The board of directors’ bylaws do not establish attendance requirements for board meetings—which is inconsistent with leading practices that state attendance requirements and expectations should be clearly spelled out in the nonprofit’s governing documents.\(^ {32} \)

  The board’s bylaws state that the board “may” adopt and maintain standards of conduct designed to fulfill the duty of care and loyalty to the program, including topics such as scheduling of and attendance at meetings. However, to date,

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the board has not established formal attendance requirements. Rather, meeting attendance is informally enforced. For example, the program’s board chair stated that board culture encourages board members to attend meetings regularly and to adequately perform their duties. One board member was recently asked to leave due to missing meetings frequently.

Because the board has the important task of overseeing the Denver Preschool Program, the lack of formal requirements to enforce board member attendance could adversely impact the engagement of all board members and their ability to provide thoughtful and complete oversight of the program’s organizational performance.

- **Financial Literacy Training** – Although financial management of the program is among its core responsibilities, the Denver Preschool Program Board of Directors does not require all members to take financial literacy training—another inconsistency with leading practices for managing nonprofit organizations. The Denver Preschool Program board chair individually sought out financial literacy training with the board’s secretary and treasurer. However, not all board members do the same, nor is it required.

To obtain contextual information about board members’ experiences while serving on the board (including training they received), auditors conducted a survey of 30 current and former board members who served between 2007 and 2019. The results of our survey are consistent with our finding that members lack financial literacy training.

Only eight of the 25 survey respondents (32 percent) reported receiving financial literacy training while serving on the Denver Preschool Program Board of Directors. Appendix B has additional information about the survey methodology.

- **Governance Structure Review** – Leading practices also suggest that all components of a nonprofit’s governance structure should be reviewed annually. Over half of survey respondents indicated that the board of directors formally evaluates its

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articles of incorporation, bylaws, mission statement, and corporate policies once per year. However, our review of the board’s governance structure review process found that, between 2015 and 2018, the mission statement, bylaws, and articles of incorporation were reviewed only once.

Specifically, the Denver Preschool Program last reviewed and revised its mission statement in August 2016 during the strategic planning process. Furthermore, the bylaws and articles of incorporation were amended most recently in 2017 to conform with voter-approved changes to the program’s governing ordinance in 2014. However, the articles of incorporation still need updating, including a list of current board members and the expiration of their terms.

Similarly, the bylaws and the articles of incorporation both need to include an explicit statement that states the board makes final approval of changes to the “Statement of Operations and Other Resources”—which summarizes the organization’s financial performance.

A formal governance structure review policy may have guaranteed that these necessary updates were made.

The Denver Preschool Program Board of Directors did not provide a rationale for its incomplete policies and procedures. Further, the Denver Preschool Program’s bylaws do not require the establishment of policy and procedure documents to ensure effective program management related to whistleblower protection, meeting attendance, financial literacy training, and a review of the governance structure.

However, insufficient board governance practices—as evidenced by a lack of policies and procedures—contribute to less effective program management. Specifically, these factors weaken the Denver Preschool Program’s ability to:

- Protect and support employees and board members who expose potential workplace concerns;
- Engage board members to provide effective program oversight;
- Guarantee all board members are thoroughly trained to make important financial decisions; and
- Ensure the program has room for growth and development.
RECOMMENDATION 1.8

Establish a Formal Whistleblower Policy – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should direct Denver Preschool Program Inc. to develop and adhere to a formal, documented whistleblower policy.

Agency Response: Agree, Implementation Date – May 31, 2020

RECOMMENDATION 1.9

Establish a Formal Meeting Attendance Policy – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop and adhere to a formal, documented meeting attendance policy.

Agency Response: Agree, Implementation Date – April 30, 2020

RECOMMENDATION 1.10

Establish Formal Financial Literacy Training Policies – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop and adhere to formal, documented training policies to ensure all board members receive financial literacy training.

Agency Response: Agree, Implementation Date – April 30, 2020

RECOMMENDATION 1.11

Review Board Governance Structure Annually – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop and adhere to formal, documented policies requiring the board to review its governance structure annually.

Agency Response: Agree, Implementation Date – April 30, 2020
The Denver Preschool Program Board of Directors Does Not Have a Formal Self-Evaluation Process

The Denver Preschool Program Board of Directors has not developed effective procedures to ensure adequate board performance. For example, leading practices state that performing a formal self-evaluation ensures board members engage in a process of group- and self-evaluation.35

The Denver Preschool Program Board of Directors was unable to provide auditors with evidence of a formal, systematic self-evaluation process. However, this contradicts the results of the board survey, in which 60 percent of survey respondents (15 out of 25) responded that the board formally evaluates how well it performs its core responsibilities.

The board chair stated that the board has informally performed self-evaluations; therefore, survey respondents may have interpreted those self-evaluations as formal. This discrepancy demonstrates the need for the board to adopt a formal self-evaluation process, which all board members are aware of and adhere to.

Additionally, the lack of a formal, systematic self-evaluation process prevents the board from having the performance information required to assess how well Denver Preschool Program Inc. is meeting its goals. Having this information is essential to the well-being and future success of the Denver Preschool Program.

RECOMMENDATION 1.12

Establish a Formal Board Self-Evaluation Process – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop a formal process for conducting self-evaluations and documenting the results.

Agency Response: Agree, Implementation Date – April 30, 2020

The Denver Preschool Program Board of Directors Does Not Have Sound Record-keeping Practices

Finally, some of the Denver Preschool Program Board of Directors’ record-keeping practices limit the board’s ability to monitor its operations and performance. A formal annual review of the president

and chief executive officer’s performance—including compensation and a self-evaluation by the executive—is a core obligation of the board, according to BoardSource, a national nonprofit organization that offers guidance and best practices on nonprofit governance.36

**Annual Performance Evaluation Documentation** – When auditors requested documentation of the former president and chief executive officer’s self-review portion of their annual performance evaluation, the board of directors provided information for only three of the four years reviewed. A self-review by the president and chief executive officer was provided for 2015, 2016, and 2017, but not for 2018. The board did not explain why it could not provide the 2018 self-review document.

A lack of fastidious record-keeping practices for all components of the president and chief executive officer’s annual performance reviews prevents the board from certifying—through an understanding of performance strengths and weaknesses—that the executive can successfully lead the program.

**Analysis of President and Chief Executive Officer Compensation** – Meanwhile, the board of directors provided a president and chief executive officer compensation analysis for only two of the four years reviewed. The board provided the analysis it used to determine the president and chief executive officer’s compensation for 2016 and 2017 but did not provide the analysis used for 2015 and 2018.

The board based its 2016 compensation recommendation on the average of executive compensation numbers from three related educational organizations, including Mile High Early Learning, Qualistar, and Clayton Early Learning. Similarly, the board based the president and chief executive officer’s 2017 compensation on four items:

- The former president and chief executive officer’s merit;
- Comparable salaries as reported by the Mountain States Employers Council and the Colorado Nonprofit Association;
- President and chief executive officer compensation numbers for the three related educational organizations (as mentioned); and
- The maximum compensation increases for City and County of Denver employees in 2017.

Leading practices state that the total compensation package for a nonprofit’s chief executive should reflect industry standards and their

Without adequate analysis provided for 2015 and 2018, it is unclear whether the president and chief executive officer’s total compensation for these years was unusually high, unusually low, or well within industry standards.

Conflict-of-Interest Policy – In addition to the lack of documentation related to the president and chief executive officer’s annual review and compensation, the Denver Preschool Program Board of Directors lacks a clear document retention policy associated with its conflict-of-interest policy. The board’s conflict-of-interest policy, effective May 2013 and revised in 2016, outlines obligations and expectations regarding disclosing financial interests that could impact board members’ abilities to put the affairs of the Denver Preschool Program above their own interests.

For Denver Preschool Program board members, a conflict-of-interest disclosure is required annually through the submission of a disclosure statement, a form that allows members to disclose any other organizations they are affiliated with.

We reviewed all available conflict-of-interest documentation for 2015 through 2019 and found that disclosure forms were incomplete for all board members. For example, no 2015 disclosure forms were provided, and only one out of the 12 board members’ disclosure forms was provided for 2017.

In auditors’ original document request, the Denver Preschool Program provided all 2019 signed disclosure forms, except one. When the team followed up and requested these forms a second time, the program provided the missing form. However, we noted the previously missing disclosure form was signed and dated the day before auditors received the form. This demonstrates a lack of consistent, comprehensive, and timely collection of signed disclosure forms.

Both best practices and the Denver Preschool Program’s conflict-of-interest policy state that each board member should disclose any financial interests that would conflict with their role on the board. The program’s policy requires board members to disclose their financial interests annually, so these disclosures can be reviewed. In addition, the Colorado Nonprofit Association states that boards should establish a conflict-of-interest policy, including a disclosure form that is signed by all board members annually.  


Conducting annual reviews of conflict-of-interest disclosures is a critical element of creating an ethical board culture. Without complete documentation of board members’ annual disclosure forms due to unclear retention and collection requirements, the board cannot ensure it detects all instances when a board member may have a conflicting financial interest.

RECOMMENDATION 1.13

Establish a Formal Document Retention Policy – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop a clear document retention policy to ensure all key documentation is retained in a manner and for a period consistent with the city’s record retention policies.

Agency Response: Agree, Implementation Date – April 30, 2020
RECOMMENDATIONS

1.1 **Align Practices with City Ordinance** – The executive director of the Office of Children’s Affairs should work with Denver Preschool Program Inc. to ensure its budgeting and spending practices conform with thresholds established in city ordinance and the city’s contract with the Denver Preschool Program.

**Agency Response: Agree, Implementation Date – March 31, 2020**

Agency Narrative: As a nonprofit organization that is committed to integrating best practices throughout our organization, we agree with Recommendation 1.1. However, we believe that some of the underlying information presented in the audit to justify this conclusion is inaccurate. Specifically, we respectfully disagree with the audit’s analysis that Denver Preschool Program’s (DPP) budgeting and spending practices “do not fully align” and “do not conform” with city ordinance. In fact, DPP is in compliance with the ordinance as outlined in our contract with the city.

Additionally, we disagree with the audit’s conclusion that DPP’s budget “falls well beneath the 93 percent program services threshold identified in city ordinance.” While it is accurate that DPP is required to spend no more than 7 percent of funds received on administration and at least 93 percent on programs, the contract does not require all revenue to be spent in the year it was received, and DPP has the ability to carry forward revenue and establish a reserve. Both the ordinance and the contract support the financial model currently in place.

We do recognize and appreciate, however, the audit’s guidance that we can and should be more precise with how we characterize revenues that are not spent on administration or programs in a given year. We will work with the Office of Children’s Affairs to ensure that we provide more precise designations of what those funds are (e.g., “revenue that will be directed to our reserve fund,” etc.) and how they are expected to be used in the future.

1.2 **Establish Well-Defined Operating Reserve Policy** – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should direct Denver Preschool Program Inc. to develop and adhere to a well-defined operating reserve policy that establishes and maintains an operating reserve that supports program operations in a manner consistent with city ordinance and contract terms.

The operating reserve policy should also reflect leading management practices for nonprofit management—including incorporating a five-year financial forecast for all aspects of the organization, developing methods for understanding risks to the organization’s short- and long-term financial planning, and establishing target reserve levels and funding approaches. The operating reserve policy should also define roles and responsibilities for authorizing spending, monitoring balances, and reporting on use of the operating reserve.

**Agency Response: Agree, Implementation Date – March 31, 2020**
Agency Narrative: We appreciate the audit’s recognition of the importance of the Denver Preschool Program’s (DPP) operating reserves in helping the organization achieve its mission. As a nonprofit organization, DPP has a responsibility to ensure financial stability, including maintaining appropriate reserves, because both Denver families and preschool providers rely on consistency in DPP funding.

The reserves established by DPP reflect, in part, the fundamental tension between budgeting for a calendar year and a school year. The primary intention of our reserves is to ensure that currently funded preschoolers are able to complete their school year should funding cease at the end of a calendar year. Also, in the event that funding should cease or substantially decrease given economic downturns, the reserves would allow DPP to wind down operations in an orderly manner to ensure commitments, such as transferring preschool, child enrollment and outcomes data that have been accumulated since the organization’s inception, are handled appropriately. Secondarily, the operating reserves allow DPP to accumulate funds for new programs that could not be funded within a single fiscal year, rather than encumbering future funds. One example is the recently announced Gap Scholarship, a three-year pilot program with a $3.8 million commitment designed to make preschool more affordable for Denver’s lowest-income families.

Historically, DPP’s Board of Directors discussed, determined and approved an operational reserves target amount each fiscal year, which is what the board considered a formal reserve policy. However, we acknowledge and respect the audit’s conclusion that this approach can be refined into a “well-defined operating reserve policy that establishes and maintains an operating reserve that supports program operations in a manner consistent with city ordinance.”

DPP’s board and staff will carefully review the current operating reserves policy model and update it to best support the needs of the students served by DPP moving forward. The policy will be consistent with leading practices for nonprofit management, which include a reserve policy that:

- Reflects a five-year financial forecast for all aspects of the organization
- Identifies and quantifies risks to the organization’s short- and long-term financial planning – including factors that are beyond management’s control
- Establishes target reserve levels and funding approaches
- Defines roles and responsibilities for authorizing spending, monitoring balances and reporting on the use of the operating reserve

1.3 **Monitor Program Appropriations** – The executive director of the Office of Children’s Affairs, the Denver Preschool Program Board of Directors, and the president and chief executive officer of Denver Preschool Program Inc. should continuously monitor and consult with the city’s Department of Finance to determine the extent to which Denver Preschool Program appropriations should be adjusted in compliance with “budget/carry forward” provisions outlined in the city’s contract with Denver Preschool Program Inc.

**Agency Response: Agree, Implementation Date – March 31, 2020**
Agency Narrative: The Denver Preschool Program’s (DPP) Board of Directors and the DPP President and CEO will continuously monitor appropriations, and adjust as needed, to ensure compliance with “budget/carry forward” provisions outlined in DPP’s contract with the city. Additionally, DPP will work proactively with the city’s Department of Finance to schedule periodic meetings to review DPP’s compliance with the “budget/carry forward” provisions.

1.4 Review Program Distribution Formula – The executive director of the Office of Children’s Affairs, the Denver Preschool Program Board of Directors, and the president and chief executive officer of Denver Preschool Program Inc. should consult with the city’s Department of Finance and the City Attorney’s Office to determine whether the distribution formula established in the city’s contract with Denver Preschool Program Inc. should be amended to more appropriately reflect the program’s current resource needs.

Agency Response: Agree, Implementation Date – March 31, 2020

Agency Narrative: We will consult with the city’s Department of Finance and the City Attorney’s Office to determine whether the distribution formula established in the city’s contract with Denver Preschool Program Inc. can and/or should be amended to more appropriately reflect the program’s current resource needs.

1.5 Establish a Formal Investment Policy – The Denver Preschool Program Board of Directors should direct Denver Preschool Program Inc. to develop and adhere to a formal, documented investment policy consistent with city ordinance, the city’s investment policy, and leading nonprofit management practices—including identifying opportunities for community impact and articulating the organization’s resource needs.

Agency Response: Agree, Implementation Date – March 31, 2020

Agency Narrative: Denver Preschool Program (DPP) acknowledges that we have been cautious in how we invest our operating funds and operational reserves. While that approach was borne out of a desire to ensure that market volatility did not undermine our ability to serve the Denver community and fulfill future commitments, we agree with the audit’s recommendation and will implement a formal, documented investment policy consistent with city ordinance, the city’s investment policy and leading nonprofit management practices.

In fact, earlier this year, DPP drafted a formal investment policy, but delayed approval and implementation of the policy pending the hire of a new president and CEO because the Board of Directors felt strongly that the incoming president and CEO should have input into the organization’s investment policy. With that position now filled, we will move forward to meet the recommendation provided in the audit.

1.6 Establish Policies for Contract Monitoring (Office of Children’s Affairs) – The executive director of the Office of Children’s Affairs should develop and adhere to a detailed contract administration plan that includes contract-specific policies and procedures to guide contract monitoring activities related to the city’s contract with Denver Preschool Program Inc. The policies and procedures should reflect contract monitoring guidelines established in the
city’s Executive Order 8 and leading practices for monitoring methods, record keeping, and assessing risk.

**Agency Response: Agree, Implementation Date – March 31, 2020**

Agency Narrative: The executive director of the Office of Children’s Affairs agrees that a formal contract administration plan is a best practice and will oversee the development of, and adherence to, a detailed contract administration plan that includes contract-specific policies and procedures to guide contract monitoring activities related to the city’s contract with Denver Preschool Program (DPP).

1.7 **Establish Policies for Contract Monitoring (Denver Preschool Program Inc.)** – The Denver Preschool Program Board of Directors should direct the president and chief executive officer of Denver Preschool Program Inc. to develop and adhere to a detailed contract administration plan that includes contract-specific policies and procedures to guide contract monitoring activities. The policies and procedures should reflect contract monitoring guidelines established in the city’s Executive Order 8 and leading practices for monitoring methods, record keeping, and assessing risk.

**Agency Response: Agree, Implementation Date – May 31, 2020**

Agency Narrative: We appreciate that the audit acknowledged Denver Preschool Program’s (DPP) implementation of some contract monitoring best practices, and we acknowledge that those processes could be stronger and should be more clearly documented. Therefore, DPP will oversee the development of, and ensure adherence to, a detailed contract administration plan. We believe it is important to note that neither DPP nor the audit have identified any specific issues that have resulted from the lack of a more comprehensive contract administration plan.

1.8 **Establish a Formal Whistleblower Policy** – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should direct Denver Preschool Program Inc. to develop and adhere to a formal, documented whistleblower policy.

**Agency Response: Agree, Implementation Date – May 31, 2020**

Agency Narrative: We agree with the audit’s recommendation that Denver Preschool Program (DPP) develop and adhere to a formal, documented whistleblower policy. While neither DPP nor the audit have identified any specific issues that have resulted from the lack of such a policy, we recognize and appreciate that the audit’s recommendation is a best practice and will take steps necessary to create and implement the policy.

1.9 **Establish a Formal Meeting Attendance Policy** – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop and adhere to a formal, documented meeting attendance policy.

**Agency Response: Agree, Implementation Date – April 30, 2020**

Agency Narrative: We agree with the audit’s recommendation that Denver Preschool
Program’s (DPP) Board of Directors develop and adhere to a formal, documented meeting attendance policy. While neither DPP nor the audit have identified any specific issues that have resulted from the lack of a formal, documented meeting attendance policy for the board, we recognize and appreciate the audit’s recommendation as a best practice and will take the necessary steps to create and implement such a policy.

1.10 Establish Formal Financial Literacy Training Policies – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop and adhere to formal, documented training policies to ensure all board members receive financial literacy training.

Agency Response: Agree, Implementation Date – April 30, 2020

Agency Narrative: We recognize the need for all members of Denver Preschool Program’s (DPP) Board of Directors to be financially literate in order for them to most effectively perform their duties. While neither DPP nor the audit have identified any specific issues or instances that indicate a lack of financial literacy on our board, we recognize that the audit’s recommendation is a best practice and will develop and adhere to formal, documented training policies to ensure all current and future board members receive financial literacy training.

1.11 Review Board Governance Structure Annually – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop and adhere to formal, documented policies requiring the board to review its governance structure annually.

Agency Response: Agree, Implementation Date – April 30, 2020

Agency Narrative: We agree with the audit that leading experts in nonprofit management recommend a formal process to review an organization’s governance structure on an annual basis. While we have conducted many of the components of such a review informally and on an ad-hoc basis previously and while neither Denver Preschool Program (DPP) nor the audit have identified any specific issues that have resulted from the lack of a formal process, DPP’s Board of Directors will develop and adhere to formal, documented policies requiring the board to review its governance structure annually.

1.12 Establish a Formal Board Self-Evaluation Process – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop a formal process for conducting self-evaluations and documenting the results.

Agency Response: Agree, Implementation Date – April 30, 2020

Agency Narrative: As the audit noted, members of Denver Preschool Program’s (DPP) Board of Directors have informally performed self-evaluations in the past. We do not believe that the informal nature of those self-evaluations has inhibited our ability to oversee DPP or undermined the performance of the organization in any way. However, we recognize the need to formalize
the process for the board to conduct self-evaluations and document the results, and we will develop a formal process for the board to do so.

1.13 **Establish a Formal Document Retention Policy** – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop a clear document retention policy to ensure all key documentation is retained in a manner and for a period consistent with the city’s record retention policies.

**Agency Response: Agree, Implementation Date – April 30, 2020**

Agency Narrative: We agree with the audit that leading experts in nonprofit management recommend a formal document retention policy to ensure all key documentation is retained in a manner, and for a period, consistent with the city’s record retention policies. Denver Preschool Program’s (DPP) informal document retention policy maintains records in a manner that requires a more onerous than necessary effort to identify and access these historical documents. While we do not believe that the informal nature of our document retention policy has inhibited our ability to oversee DPP or undermined the performance of the organization, we recognize the need to formalize the process and will take the steps necessary to do so.
October 8, 2019

Auditor Timothy M. O’Brien, CPA
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80202

Dear Mr. O’Brien,

The Office of the Auditor has conducted a performance audit of the Denver Preschool Program’s (DPP) efforts to increase access to and quality of preschool programs for Denver residents—including the City and County of Denver’s oversight and management of program administration and expenditure of funds derived from the Denver preschool tax.

We are proud that DPP is one of the most successful programs of its kind and is a model for other municipalities around the country. Because of Denver’s investment in its youngest residents, 60 percent of eligible 4-year-olds participate in the Denver Preschool Program. This participation rate is double the national average, a statistic that should make every Denver resident proud. DPP secures access to high-quality care by approving every eligible and complete application submitted. We proactively market and collaborate with the community to enroll all eligible 4-year-olds in our program.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on September 11, 2019. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING
The City’s Insufficient Oversight Left the Excessive Accumulation of Denver Preschool Program Funds Unchecked, which Limited Opportunities to Expand Program Participation

RECOMMENDATION 1.1
Align Practices with City Ordinance – The executive director of the Office of Children’s Affairs should work with Denver Preschool Program Inc. to ensure its budgeting and spending practices conform with thresholds established in city ordinance and the city’s contract with the Denver Preschool Program.

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Page 1 of 9
Narrative for Recommendation 1.1
As a nonprofit organization that is committed to integrating best practices throughout our organization, we agree with Recommendation 1.1. However, we believe that some of the underlying information presented in the audit to justify this conclusion is inaccurate. Specifically, we respectfully disagree with the audit’s analysis that Denver Preschool Program’s (DPP) budgeting and spending practices “do not fully align” and “do not conform” with city ordinance. In fact, DPP is in compliance with the ordinance as outlined in our contract with the city.

Additionally, we disagree with the audit’s conclusion that DPP’s budget “falls well beneath the 93 percent program services threshold identified in city ordinance.” While it is accurate that DPP is required to spend no more than 7 percent of funds received on administration and at least 93 percent on programs, the contract does not require all revenue to be spent in the year it was received, and DPP has the ability to carry forward revenue and establish a reserve. Both the ordinance and the contract support the financial model currently in place.

We do recognize and appreciate, however, the audit’s guidance that we can and should be more precise with how we characterize revenues that are not spent on administration or programs in a given year. We will work with the Office of Children’s Affairs to ensure that we provide more precise designations of what those funds are (e.g., “revenue that will be directed to our reserve fund,” etc.) and how they are expected to be used in the future.

RECOMMENDATION 1.2
Establish Well-Defined Operating Reserve Policy – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should direct Denver Preschool Program Inc. to develop and adhere to a well-defined operating reserve policy that establishes and maintains an operating reserve that supports program operations in a manner consistent with city ordinance and contract terms.

The operating reserve policy should also reflect leading management practices for nonprofit management—including incorporating a five-year financial forecast for all aspects of the organization, developing methods for understanding risks to the organization’s short- and long-term financial planning, and establishing target reserve levels and funding approaches. The operating reserve policy should also define roles and responsibilities for authorizing spending, monitoring balances, and reporting on use of the operating reserve.
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<td>March 31, 2020</td>
<td>Elsa Holguin, DPP President and CEO 720-287-5055, x160</td>
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**Narrative for Recommendation 1.2**

We appreciate the audit’s recognition of the importance of the Denver Preschool Program’s (DPP) operating reserves in helping the organization achieve its mission. As a nonprofit organization, DPP has a responsibility to ensure financial stability, including maintaining appropriate reserves, because both Denver families and preschool providers rely on consistency in DPP funding.

The reserves established by DPP reflect, in part, the fundamental tension between budgeting for a calendar year and a school year. The primary intention of our reserves is to ensure that currently funded preschool children are able to complete their school year should funding cease at the end of a calendar year. Also, in the event that funding should cease or substantially decrease given economic downturns, the reserves would allow DPP to wind down operations in an orderly manner to ensure commitments, such as transferring preschool, child enrollment and outcomes data that have been accumulated since the organization’s inception, are handled appropriately. Secondarily, the operating reserves allow DPP to accumulate funds for new programs that could not be funded within a single fiscal year, rather than encumbering future funds. One example is the recently announced Gap Scholarship, a three-year pilot program with a $3.8 million commitment designed to make preschool more affordable for Denver’s lowest-income families.

Historically, DPP’s Board of Directors discussed, determined and approved an operational reserves target amount each fiscal year, which is what the board considered a formal reserve policy. However, we acknowledge and respect the audit’s conclusion that this approach can be refined into a “well-defined operating reserve policy that establishes and maintains an operating reserve that supports program operations in a manner consistent with city ordinance.”

DPP’s board and staff will carefully review the current operating reserves policy model and update it to best support the needs of the students served by DPP moving forward. The policy will be consistent with leading practices for nonprofit management, which include a reserve policy that:

- Reflects a five-year financial forecast for all aspects of the organization
- Identifies and quantifies risks to the organization’s short- and long-term financial planning – including factors that are beyond management’s control
- Establishes target reserve levels and funding approaches
- Defines roles and responsibilities for authorizing spending, monitoring balances and reporting on the use of the operating reserve

**RECOMMENDATION 1.3**

Page 3 of 9
Monitor Program Appropriations – The executive director of the Office of Children’s Affairs, the Denver Preschool Program Board of Directors, and the President and Chief Executive Officer of Denver Preschool Program Inc. should continuously monitor and consult with the city’s Department of Finance to determine the extent to which Denver Preschool Program appropriations should be adjusted in compliance with “budget/carry forward” provisions outlined in the city’s contract with Denver Preschool Program Inc.

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<td>Ellen Braun, DPP COO 720-287-5055, x170</td>
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Narrative for Recommendation 1.3
The Denver Preschool Program’s (DPP) Board of Directors and the DPP President and CEO will continuously monitor appropriations, and adjust as needed, to ensure compliance with “budget/carry forward” provisions outlined in DPP’s contract with the city. Additionally, DPP will work proactively with the city’s Department of Finance to schedule periodic meetings to review DPP’s compliance with the “budget/carry forward” provisions.

RECOMMENDATION 1.4
Review Program Distribution Formula – The executive director of the Office of Children’s Affairs, the Denver Preschool Program Board of Directors, and the President and Chief Executive Officer of Denver Preschool Program Inc. should consult with the city’s Department of Finance and the City Attorney’s Office to determine whether the distribution formula established in the city’s contract with Denver Preschool Program Inc. should be amended to more appropriately reflect the program’s current resource needs.

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Narrative for Recommendation 1.4
We will consult with the city’s Department of Finance and the City Attorney’s Office to determine whether the distribution formula established in the city’s contract with Denver Preschool Program Inc. can and/or should be amended to more appropriately reflect the program’s current resource needs.

RECOMMENDATION 1.5
### Establish a Formal Investment Policy

- **The Denver Preschool Program Board of Directors** should direct Denver Preschool Program Inc. to develop and adhere to a formal, documented investment policy consistent with city ordinance, the city’s investment policy, and leading nonprofit management practices—including identifying opportunities for community impact and articulating the organization’s resource needs.

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### Narrative for Recommendation 1.5

Denver Preschool Program (DPP) acknowledges that we have been cautious in how we invest our operating funds and operational reserves. While that approach was borne out of a desire to ensure that market volatility did not undermine our ability to serve the Denver community and fulfill future commitments, we agree with the audit’s recommendation and will implement a formal, documented investment policy consistent with city ordinance, the city’s investment policy and leading nonprofit management practices.

In fact, earlier this year, DPP drafted a formal investment policy, but delayed approval and implementation of the policy pending the hire of a new president and CEO because the Board of Directors felt strongly that the incoming president and CEO should have input into the organization’s investment policy. With that position now filled, we will move forward to meet the recommendation provided in the audit.

### RECOMMENDATION 1.6

**Establish Policies for Contract Monitoring (Office of Children’s Affairs)** – The executive director of the Office of Children’s Affairs should develop and adhere to a detailed contract administration plan that includes contract-specific policies and procedures to guide contract monitoring activities related to the city’s contract with Denver Preschool Program Inc. The policies and procedures should reflect contract monitoring guidelines established in the city’s Executive Order 8 and leading practices for monitoring methods, record keeping, and assessing risk.

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<td>March 31, 2020</td>
<td>Dionne Williams, OCA Executive Director, 720-913-0906</td>
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### Narrative for Recommendation 1.6

The executive director of the Office of Children’s Affairs agrees that a formal contract administration plan is a best practice and will oversee the development of, and adherence
to, a detailed contract administration plan that includes contract-specific policies and procedures to guide contract monitoring activities related to the city’s contract with Denver Preschool Program (DPP).

**RECOMMENDATION 1.7**
*Establish Policies for Contract Monitoring (Denver Preschool Program Inc.)* — The Denver Preschool Program Board of Directors should direct the President and Chief Executive Officer of Denver Preschool Program Inc. to develop and adhere to a detailed contract administration plan that includes contract-specific policies and procedures to guide contract monitoring activities. The policies and procedures should reflect contract monitoring guidelines established in the city’s Executive Order 8 and leading practices for monitoring methods, record keeping, and assessing risk.

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**Narrative for Recommendation 1.7**
We appreciate that the audit acknowledged Denver Preschool Program’s (DPP) implementation of some contract monitoring best practices, and we acknowledge that those processes could be stronger and should be more clearly documented. Therefore, DPP will oversee the development of, and ensure adherence to, a detailed contract administration plan. We believe it is important to note that neither DPP nor the audit have identified any specific issues that have resulted from the lack of a more comprehensive contract administration plan.

**RECOMMENDATION 1.8**
*Establish a Formal Whistleblower Policy* — Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should direct Denver Preschool Program Inc. to develop and adhere to a formal, documented whistleblower policy.

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**Narrative for Recommendation 1.8**
We agree with the audit’s recommendation that Denver Preschool Program (DPP) develop and adhere to a formal, documented whistleblower policy. While neither DPP nor the audit have identified any specific issues that have resulted from the lack of such a
policy, we recognize and appreciate that the audit’s recommendation is a best practice and will take steps necessary to create and implement the policy.

### RECOMMENDATION 1.9
**Establish a Formal Meeting Attendance Policy** – Consistent with leading practices for nonprofit management, the Preschool Program Board of Directors should develop and adhere to a formal, documented meeting attendance policy.

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**Narrative for Recommendation 1.9**
We agree with the audit’s recommendation that Denver Preschool Program’s (DPP) Board of Directors develop and adhere to a formal, documented meeting attendance policy. While neither DPP nor the audit have identified any specific issues that have resulted from the lack of a formal, documented meeting attendance policy for the board, we recognize and appreciate the audit’s recommendation as a best practice and will take the necessary steps to create and implement such a policy.

### RECOMMENDATION 1.10
**Establish Formal Financial Literacy Training Policies** – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop and adhere to formal, documented training policies to ensure all board members receive financial literacy training.

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**Narrative for Recommendation 1.10**
We recognize the need for all members of Denver Preschool Program’s (DPP) Board of Directors to be financially literate in order for them to most effectively perform their duties. While neither DPP nor the audit have identified any specific issues or instances that indicate a lack of financial literacy on our board, we recognize that the audit’s recommendation is a best practice and will develop and adhere to formal, documented training policies to ensure all current and future board members receive financial literacy training.
**RECOMMENDATION 1.11**

Review Board Governance Structure Annually – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop and adhere to formal, documented policies requiring the board to review its governance structure annually.

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**Narrative for Recommendation 1.11**

We agree with the audit that leading experts in nonprofit management recommend a formal process to review an organization’s governance structure on an annual basis. While we have conducted many of the components of such a review informally and on an ad-hoc basis previously and while neither Denver Preschool Program (DPP) nor the audit have identified any specific issues that have resulted from the lack of a formal process, DPP’s Board of Directors will develop and adhere to formal, documented policies requiring the board to review its governance structure annually.

**RECOMMENDATION 1.12**

Establish a Formal Board Self-Evaluation Process – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop a formal process for conducting self-evaluations and documenting the results.

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**Narrative for Recommendation 1.12**

As the audit noted, members of Denver Preschool Program’s (DPP) Board of Directors have informally performed self-evaluations in the past. We do not believe that the informal nature of those self-evaluations has inhibited our ability to oversee DPP or undermined the performance of the organization in any way. However, we recognize the need to formalize the process for the board to conduct self-evaluations and document the results, and we will develop a formal process for the board to do so.

**RECOMMENDATION 1.13**
Establish a Formal Document Retention Policy – Consistent with leading practices for nonprofit management, the Denver Preschool Program Board of Directors should develop a clear document retention policy to ensure all key documentation is retained in a manner and for a period consistent with the city’s record retention policies.

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Narrative for Recommendation 1.13
We agree with the audit that leading experts in nonprofit management recommend a formal document retention policy to ensure all key documentation is retained in a manner, and for a period, consistent with the city’s record retention policies. Denver Preschool Program’s (DPP) informal document retention policy maintains records in a manner that requires a more onerous than necessary effort to identify and access these historical documents. While we do not believe that the informal nature of our document retention policy has inhibited our ability to oversee DPP or undermined the performance of the organization, we recognize the need to formalize the process and will take the steps necessary to do so.

Please contact me at 720-287-5055, x160 with any questions.

Sincerely,

Elsa Holguin
President & CEO
Denver Preschool Program

cc: Valerie Walling, Deputy Auditor, CPA, CMC®
Katja E. V. Freeman, MA, MELP, Audit Manager
Dionne Williams, Executive Director, Office of Children’s Affairs
Charles Duke, Education Policy Director, Office of Children’s Affairs
Zach Hochstadt, Board Chair, Denver Preschool Program
OBJECTIVE

To assess the effectiveness of the Denver Preschool Program’s efforts to increase access to and quality of preschool programs for Denver residents, including the City and County of Denver’s oversight and management of program administration and expenditure of funds derived from the Denver preschool tax.

SCOPE

During our examination of the Denver Preschool Program’s efforts to increase access to quality preschool programs for Denver residents, we analyzed how well the Denver Preschool Program’s administrative and financial operations aligned with applicable legal requirements—including those established in city ordinance and in contract terms.

We also examined the extent to which the Denver Preschool Program Board of Directors’ operations align with leading management practices for board governance and nonprofit oversight. Finally, we analyzed the effectiveness of the Denver Preschool Program’s resource management and allocation practices in supporting the program’s mission.

The period of our analysis was Jan. 1, 2015, through Dec. 31, 2018, unless otherwise noted.

METHODOLOGY

We applied multiple methodologies to gather and analyze information pertinent to the audit scope. Specifically, to assess the effectiveness of the Denver Preschool Program’s efforts to increase Denver residents’ access to quality preschool programs, we applied the following methodologies:

• Reviewed city ordinance, the city’s contract with Denver Preschool Program Inc., and contracts with third-party service providers to identify and summarize applicable legal requirements for the Denver Preschool Program.

• Compared applicable Denver Preschool Program legal requirements established under city ordinance to the program’s administrative and financial operations to identify gaps—including those operations pertaining to the Office of Children’s Affairs, the Denver Preschool Program Board of Directors, and Denver Preschool Program Inc.

• Compared Denver Preschool Program Inc. and the operations of applicable third-party service providers (i.e., MetrixIQ, Denver Early Childhood Council, and The Flahive Group LLC) to the terms and conditions outlined in relevant contracts to determine the extent to which programs and services are being provided in accordance with established guidelines and specifications. This work included limited case-file reviews to examine the extent to which processes for delivering services adhere to contractual requirements.
• Analyzed Denver Preschool Program Inc. financial data for calendar years 2015 through 2018 to determine whether the program tracks administrative and program expenditures in a manner consistent with thresholds established in city ordinance.

• Compared the Denver Preschool Program Board of Directors’ operations to leading nonprofit management practices to identify gaps—including those practices related to board formation and composition and the role of oversight bodies in setting strategic direction.

• Examined the extent to which the Denver Preschool Program’s financial reporting and accounting practices align with guidance from the Financial Accounting Standards Board (FASB) guidance. This included analyzing the Denver Preschool Program’s annual audited financial statements and trial balances to identify and describe trends related to the program’s ending cash balances for 2015 through 2018.

• Compared the Denver Preschool Program’s financial reporting and accounting practices—including those related to restricted and unrestricted revenue, rule changes for contributions, assets, and liabilities—to FASB guidance to determine the extent to which there are gaps.

• Examined the appropriateness of Denver Preschool Program investment strategies within the context of industry standards, city investment practices, and other regulations or legal restrictions. This included analyzing program documentation to identify and describe Denver Preschool Program Inc.’s investment strategies, administration and governance structure, and investment performance benchmarks and performance review methodologies.

• Analyzed data trends related to Denver Preschool Program Inc.’s investment performance, including yield and rate of return—particularly as compared to alternative investment options such as those managed through the Cash, Risk, and Capital Funding Division within the City and County of Denver’s Department of Finance.

• Analyzed data trends related to the Denver Preschool Program’s efforts to increase access to preschool, for program years 2015 through 2018. This included examining data from the Denver Preschool Program and the Office of Children’s Affairs to assess trends related to the amount of tuition credits awarded, household demographics, and whether the percentage of eligible children increased each year.

• Analyzed data trends related to Denver Preschool Program quality initiatives for fiscal and program years 2015 through 2018. This included analysis of program data to determine provider participation levels and trends related to quality ratings.

• When applicable, assessed the reliability of the data obtained to determine the extent to which it was reasonably complete and accurate, met the intended purpose, and was not subject to inappropriate alteration.

• Surveyed Denver Preschool Program Board of Directors members who served between 2007 and 2019 to obtain contextual information about the board’s oversight roles and responsibilities, governance, and management processes.

• Observed select operations for the Office of Children’s Affairs, the Denver Preschool Program Board of Directors, Denver Preschool Program Inc. and other third-party service providers to obtain additional contextual information about Denver Preschool Program processes to support audit findings and root-cause analysis.
• Interviewed Office of Children’s Affairs officials, Denver Preschool Program board members, Denver Preschool Program Inc. representatives, third-party service providers, and other subject-matter experts to identify contextual factors contributing to the design, implementation, or evaluation of program operations that may support audit findings and root-cause analysis.
APPENDICES

Appendix A – Denver Preschool Program Monthly Tuition Credit Scale, Academic Years 2017-18 and 2018-19

As discussed in the background of this report, the Denver Preschool Program offers financial assistance—referred to as “tuition credits”—to all families who are Denver residents, have a child who will be 4 years old prior to or on Oct. 1 of the current academic year, and whose child will be enrolled in a participating preschool program.39

Tuition credits are awarded to families on a six-tier sliding scale with the amount of tuition credit awarded depending on multiple factors—including family income and size, the quality rating of the preschool program attended, and the amount of time the child attends the program each day.

Monthly tuition credit scales for academic years 2017-18 and 2018-19 are reprinted on the next two pages.

39 An academic year is the period during which a child receives educational instruction or attends school. For program and reporting purposes, Denver Preschool Program Inc. defines the academic year as Sept. 1 through Aug. 31. Auditors also relied on this definition to analyze data trends for both child and provider participation in the Denver Preschool Program.
Denver Preschool Program
Monthly Tuition Credit Scale 2017-2018 (Approved)

| Tier 1 | Household Size | Income Equal to or Less Than 2 $15,930 3 $19,191 4 $24,250 5 $28,410 6 $32,570 7 $36,730 8 $40,890 | Quality Rating | Full-Day Tuition Credit $406 2 $203 3 $617 4 $308 5 $709 6 $186 | Half-Day Tuition Credit $203 2 $123 3 $54 4 $27 5 $142 6 $71 | Extended-Day Tuition Credit $466 2 $233 3 $617 4 $308 5 $709 6 $186 |
|---|---|---|---|---|---|
| Tier 2 | Household Size | Income Equal to or Greater Than 2 $15,931 3 $20,091 4 $24,251 5 $28,411 6 $32,571 7 $36,731 8 $40,891 | Quality Rating | Full-Day Tuition Credit $365 2 $183 3 $420 4 $210 5 $396 6 $210 7 $396 | Half-Day Tuition Credit $183 2 $91 3 $240 4 $105 5 $198 6 $105 7 $198 | Extended-Day Tuition Credit $420 2 $210 3 $420 4 $210 5 $396 6 $210 7 $396 |
| Tier 3 | Household Size | Income Equal to or Greater Than 2 $29,472 3 $37,168 4 $44,864 5 $52,560 6 $60,256 7 $67,952 8 $75,648 | Quality Rating | Full-Day Tuition Credit $325 2 $162 3 $429 4 $215 5 $494 6 $247 7 $494 | Half-Day Tuition Credit $162 2 $81 3 $241 4 $125 5 $342 6 $173 7 $342 | Extended-Day Tuition Credit $429 2 $215 3 $429 4 $215 5 $494 6 $247 7 $494 |
| Tier 4 | Household Size | Income Equal to or Greater Than 2 $45,402 3 $57,258 4 $69,114 5 $80,970 6 $92,826 7 $104,682 8 $116,538 | Quality Rating | Full-Day Tuition Credit $284 2 $142 3 $327 4 $163 5 $407 6 $209 7 $407 | Half-Day Tuition Credit $142 2 $71 3 $142 4 $71 5 $142 6 $71 7 $142 | Extended-Day Tuition Credit $327 2 $163 3 $327 4 $163 5 $407 6 $209 7 $407 |
| Tier 5 | Household Size | Income More Than 2 $55,755 3 $70,315 4 $84,875 5 $99,435 6 $113,995 7 $128,555 8 $143,115 | Quality Rating | Full-Day Tuition Credit $81 2 $41 3 $93 4 $47 5 $97 6 $47 7 $97 | Half-Day Tuition Credit $41 2 $20 3 $47 4 $23 5 $54 6 $54 7 $107 | Extended-Day Tuition Credit $93 2 $47 3 $97 4 $47 5 $97 6 $47 7 $97 |

Opt Out *

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<tr>
<th>Household Size</th>
<th>Income</th>
<th>Quality Rating</th>
<th>Full-Day Tuition Credit</th>
<th>Half-Day Tuition Credit</th>
<th>Extended-Day Tuition Credit</th>
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<td>n/a</td>
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</table>

* Minimum tuition credit offered by Denver Preschool Program. Assumes no income documentation submitted.
# Denver Preschool Program

**Monthly Tuition Credit Scale 2018-2019 (Approved)**

## TIER 1

<table>
<thead>
<tr>
<th>Household Size</th>
<th>Income</th>
<th>Quality Rating</th>
<th>Full-Day Tuition Credit</th>
<th>Half-Day Tuition Credit</th>
<th>Extended-Day Tuition Credit</th>
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</thead>
<tbody>
<tr>
<td>Equal to or Less Than 2</td>
<td>$16,240</td>
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<td>$509</td>
<td>$255</td>
<td>$586</td>
</tr>
<tr>
<td>3</td>
<td>$19,440</td>
<td>2</td>
<td>$527</td>
<td>$264</td>
<td>$587</td>
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<tr>
<td>4</td>
<td>$24,600</td>
<td>3</td>
<td>$555</td>
<td>$284</td>
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</tr>
<tr>
<td>5</td>
<td>$28,780</td>
<td>4</td>
<td>$603</td>
<td>$307</td>
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<tr>
<td>6</td>
<td>$32,960</td>
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<tr>
<td>8</td>
<td>$41,320</td>
<td>7</td>
<td>$876</td>
<td>$445</td>
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</tbody>
</table>

### More than 8 family members - add $4,180 for each additional member

## TIER 2

<table>
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<tr>
<th>Household Size</th>
<th>Income</th>
<th>Quality Rating</th>
<th>Full-Day Tuition Credit</th>
<th>Half-Day Tuition Credit</th>
<th>Extended-Day Tuition Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal to or Greater Than 2</td>
<td>$16,241</td>
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<td>$458</td>
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</tr>
<tr>
<td>3</td>
<td>$20,421</td>
<td>2</td>
<td>$511</td>
<td>$255</td>
<td>$587</td>
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<tr>
<td>4</td>
<td>$24,601</td>
<td>3</td>
<td>$589</td>
<td>$295</td>
<td>$628</td>
</tr>
<tr>
<td>5</td>
<td>$28,781</td>
<td>4</td>
<td>$622</td>
<td>$311</td>
<td>$675</td>
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<tr>
<td>6</td>
<td>$32,961</td>
<td>5</td>
<td>$686</td>
<td>$343</td>
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<td>8</td>
<td>$41,321</td>
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<td>$876</td>
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</table>

### More than 8 family members - add $7,733 for each additional member

## TIER 3

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<th>Quality Rating</th>
<th>Full-Day Tuition Credit</th>
<th>Half-Day Tuition Credit</th>
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</thead>
<tbody>
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<td>$433</td>
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<tr>
<td>3</td>
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<td>$676</td>
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<tr>
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<td>$746</td>
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<td>$68,710</td>
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<tr>
<td>8</td>
<td>$76,443</td>
<td>7</td>
<td>$826</td>
<td>$367</td>
<td>$896</td>
</tr>
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</table>

### More than 8 family members - add $12,540 for each additional member

## TIER 4

<table>
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<th>Quality Rating</th>
<th>Full-Day Tuition Credit</th>
<th>Half-Day Tuition Credit</th>
<th>Extended-Day Tuition Credit</th>
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</thead>
<tbody>
<tr>
<td>Equal to or Greater Than 2</td>
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<td>$178</td>
<td>$410</td>
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<tr>
<td>3</td>
<td>$61,261</td>
<td>2</td>
<td>$397</td>
<td>$199</td>
<td>$457</td>
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<tr>
<td>4</td>
<td>$73,801</td>
<td>3</td>
<td>$438</td>
<td>$229</td>
<td>$507</td>
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<tr>
<td>5</td>
<td>$86,341</td>
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<td>5</td>
<td>$534</td>
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<tr>
<td>7</td>
<td>$111,421</td>
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<td>8</td>
<td>$123,961</td>
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<td>$654</td>
<td>$325</td>
<td>$732</td>
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### More than 8 family members - add $16,720 for each additional member

## TIER 5

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<th>Half-Day Tuition Credit</th>
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<tr>
<td>5</td>
<td>$115,120</td>
<td>4</td>
<td>$152</td>
<td>$69</td>
<td>$179</td>
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<tr>
<td>6</td>
<td>$131,840</td>
<td>5</td>
<td>$175</td>
<td>$76</td>
<td>$199</td>
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<td>$148,560</td>
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<td>8</td>
<td>$165,280</td>
<td>7</td>
<td>$223</td>
<td>$90</td>
<td>$247</td>
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</table>

### More than 8 family members - add $16,720 for each additional member

## Opt Out *

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<th>Income</th>
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<th>Full-Day Tuition Credit</th>
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<td>$11</td>
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### Minimum tuition credit offered by Denver Preschool Program. Assumes no income documentation submitted

**Revised: 12/21/2017**
Appendix B – Methodology for Denver Preschool Program Board of Directors Survey

Auditors conducted a survey of 30 current and former board members who served on the Denver Preschool Program Board of Directors between 2007 and 2019 to obtain contextual information about their experiences while serving on the board—including professional background, training, oversight roles and responsibilities, governance, and management. We conducted our survey from July 3, 2019, through July 31, 2019.

We developed and distributed our survey through SurveyMonkey using a secure account established by the Auditor’s Office. To ensure the soundness of our survey results, we took steps in the development of the survey, in data collection, and in data analysis to minimize nonsampling errors.

The survey contained 19 questions to obtain contextual information about board member experiences while serving on the board, including professional background, training, oversight roles and responsibilities, governance, and management processes. We received 25 usable responses based on the 30 survey invitations distributed and determined that our response rate was 83 percent.

Table 3 below and continued on the following page shows the questions included in the Denver Preschool Program Board of Directors survey mentioned on pages 26 and 29 of the audit report.

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<th>Category</th>
<th>Question Number</th>
<th>Question</th>
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<td>Q1</td>
<td>Which years did you serve on the Denver Preschool Program Board of Directors? (Select all that apply.)</td>
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</tr>
<tr>
<td>Q2</td>
<td>During your tenure on the Denver Preschool Program Board of Directors, did you serve as an officer?</td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td>If you served as an officer, which office(s) did you hold? (Select all that apply.)</td>
<td></td>
</tr>
<tr>
<td>Q4</td>
<td>During your tenure on the Denver Preschool Program Board of Directors, did you serve on a subcommittee or working group?</td>
<td></td>
</tr>
<tr>
<td>Q5</td>
<td>If you served on a subcommittee or working group, which subcommittee or working group did you serve on? (Select all that apply.)</td>
<td></td>
</tr>
<tr>
<td>Q6</td>
<td>Before you joined the Denver Preschool Program Board of Directors, what was your level of expertise in each of the following areas?</td>
<td></td>
</tr>
<tr>
<td>Q7</td>
<td>Please list any professional organizations, boards, or commissions of which you were a member while also serving on the Denver Preschool Program Board of Directors. Please separate each organization with a comma. If you were not a member of a professional organization, write “None.” (No more than 100 characters.)</td>
<td></td>
</tr>
</tbody>
</table>

Source: City and County of Denver Auditor’s Office.

Note: Table continues on the following page.
The results of the survey were compiled and separated by question for analysis. We used a combination of research methods to analyze the survey responses including quantitative analysis of the closed-ended, multiple choice questions and qualitative analysis of the open-ended, written survey responses.

For the quantitative analysis, we took the total number of responses for each answer and divided by the total number of respondents to calculate a percentage. These percentages represent the total number of respondents providing a specific answer to each question. For the qualitative analysis, we analyzed response content to determine the extent to which there were common themes and used this information to provide context for our findings where appropriate.
Appendix C – Denver Preschool Program Data Trend Analysis

Auditors analyzed Denver Preschool Program data between academic years 2014-15 and 2018-19 to assess trends related to the amount of tuition credits awarded, household demographics, and whether the percentage of eligible children has increased each year. We also analyzed data trends related to Denver Preschool Program quality-improvement activities during this period. This included analysis of program data to determine provider participation levels and trends related to quality ratings. Further, we analyzed U.S. Census Bureau data to understand how trends observed in Denver Preschool Program data relate to trends observed in the broader Denver community—including the distribution of program participants and preschool providers by location.

Prior to completing our analysis, we assessed the reliability of data obtained in accordance with generally accepted government auditing standards. Specifically, we examined the data to determine the extent to which it was reasonably complete and accurate, met the intended purpose, and was not subject to inappropriate alteration. Based on this examination, we determined the data to be sufficiently reliable for our purposes.

Scope and Methodology

To complete our analysis, we relied on Denver Preschool Program data extracted from the MetrixIQ pay file in SugarCRM—the system of record for all Denver Preschool Program applications, approved applications, participating providers, and reporting.

As discussed in the background of this report, MetrixIQ is an early childhood education consulting firm that provides a range of support services to the Denver Preschool Program—including services related to application processing, eligibility assessment, preschool attendance reporting, and payment calculation. We also used data from the Colorado Information Marketplace information system of the state Office of Early Childhood to develop information about preschool providers’ quality ratings and locations. Moreover, we analyzed the city’s geographic information system to map the location of participating preschool providers by City Council district. Finally, we relied on U.S. Census Bureau data from the American Community Survey to map locations by census tract and by demographic characteristics.

We tested the validity of our analysis by comparing select results to those reported in the Denver Preschool Program Annual Report. We also interviewed representatives from Denver Preschool Program Inc., MetrixIQ, and the Denver Early Childhood Council to identify contextual factors that could impact the results of our analysis. The results are summarized in the next section.

Results of Analysis

Number of Approved Denver Preschool Program Participants – As discussed in the background of this report, the Denver Preschool Program offers financial assistance—referred to as “tuition credits”—to
eligible Denver families. Tuition credits are awarded to families on a six-tier sliding scale with the amount of tuition credit awarded depending on multiple factors—including family income and size, the quality rating of the preschool program attended, and the amount of time the child attends the program each day.

Tier 1 families receive the greatest amount of tuition credit support, while Tier 6 families receive the lowest amount of support. The tier calculation uses the student’s family income and family size. As shown in this appendix, families making $35,000 or less are nearly all in Tier 1, while families making over $75,000 per year are mostly categorized as Tier 4 or Tier 5. Those in Tier 6 are participants who opted out of providing income data and, therefore, receive the lowest level of support.

Figure 9 shows the count of children approved for participation in the Denver Preschool Program for each academic year, broken down by tier. Overall, the analysis shows the total number of student participants in the Denver Preschool Program declined from a high of 5,045 in the 2015-16 academic year to 4,403 students in the 2018-19 academic year. Compared to Figure 10 (on the following page), which shows the proportion of students in each tier, Figure 9 shows the raw counts. Both analyses show similar trends: a decrease in Tier 1 students, a large increase in Tier 3 students, a small increase in Tier 5 students, and stable counts in the number of students in tiers 2, 4, and 6.

FIGURE 9. Number of Denver Preschool Program Participants, by Income Tier, for Academic Years 2014-15 through 2018-19

Source: Auditor’s Office analysis of Denver Preschool Program MetrixIQ data.

Note: Data on the number of Denver Preschool Program participants is from Sept. 1 through Aug. 31 for academic years 2014-15 through 2017-18. For academic year 2018-19 data on the number of program participants is from Sept. 1, 2018, through June 6, 2019. This analysis reflects the number of children approved to participate in the program and who had received tuition credit assistance as of June 6, 2019. The income tier analysis shown is based on household income and size information.

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40 Eligible families must reside in the City and County of Denver and have a child who will be 4 years old prior to or on Oct. 1 of the current academic year and enrolled in a participating preschool.

41 An academic year is the period during which a child receives educational instruction or attends school. For program and reporting purposes, Denver Preschool Program Inc. defines the academic year as Sept. 1 through Aug. 31. Auditors also relied on this definition to analyze data trends for both child and provider participation in the Denver Preschool Program.
Additionally, Figure 10 shows the percent of total Denver Preschool Program student participants by tier for each academic year. In the 2014–15 academic year, students in Tier 1 made up 47 percent of all program participants. While Tier 1 continues to be the most common tier, its percentage out of all participants has decreased steadily to 35.5 percent in the 2018–19 academic year.

Tier 3 has seen the greatest growth in terms of the proportional composition of all Denver Preschool Program participants, making up 5 percent of all program participants in the 2014–15 academic year compared to 12 percent in the 2018–19 academic year. Tier 5 has begun to take up a larger percentage as well, increasing from 12 percent to 16 percent in the same period. Tiers 2, 4, and 6 have remained stable at about 20 percent, 5 percent, and 9 percent, respectively.

**FIGURE 10.** Percentage of Denver Preschool Program Participants, by Income Tier, for Academic Years 2014–15 through 2018–19

<table>
<thead>
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<th></th>
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<tbody>
<tr>
<td>Tier 1</td>
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<td>41%</td>
<td>39%</td>
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<tr>
<td>Tier 2</td>
<td>21%</td>
<td>22%</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>Tier 3</td>
<td>5%</td>
<td>5%</td>
<td>6%</td>
<td>11%</td>
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<tr>
<td>Tier 4</td>
<td>5%</td>
<td>6%</td>
<td>6%</td>
<td>4%</td>
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<tr>
<td>Tier 5</td>
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<td>17%</td>
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<td>Tier 6</td>
<td>9%</td>
<td>9%</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

**Source:** Auditor’s Office analysis of Denver Preschool Program MetrixIQ data.

**Note:** Data on the number of Denver Preschool Program participants is from Sept. 1 through Aug. 31 for academic years 2014–15 through 2017–18. For academic year 2018–19 data on the number of program participants is from Sept. 1, 2018, through June 6, 2019. This analysis reflects the number of children approved to participate in the program and had received tuition credit assistance as of June 6, 2019. The income tier analysis shown is based on household income and size information.
**Amount of Denver Preschool Program Tuition Credits** – When considering the total number of tuition credits earned, Tier 1 students receive the most tuition—followed by tiers 2, 3, 4, 5, and 6, respectively. Figure 11 describes the tuition credits earned from academic year 2014-15 through May of the 2018-19 academic year.

When we examined this data by year, we see the overall trend is the same, but by tier, some fluctuations have occurred. These fluctuations are an effect of the change in participants in each tier (described above). Tier 1 students earn the most tuition credits provided by the Denver Preschool Program, followed by Tier 2, then Tier 3.

**FIGURE 11.** Total Amount of Tuition Credit Earned, by Income Tier, for Academic Years 2014-15 through 2018-19

<table>
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<tr>
<th>Tier</th>
<th>Amount (£)</th>
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<td>$833,492</td>
</tr>
</tbody>
</table>

**TOTAL: $69 million**

*Source: Auditor’s Office analysis of Denver Preschool Program MetrixIQ pay file data.*

*Note: Data on Denver Preschool Program tuition credits is from Sept. 1 through Aug. 31 for academic years 2014-15 through 2017-18. For academic year 2018-19 data on tuition credits is from Sept. 1, 2018, through June 6, 2019. Income tier analysis shown is based on household income and size information.*
As shown in Figure 12, Tier 1 students received over $7 million in tuition, followed by nearly $3 million for Tier 2 students and about $750,000 for Tier 3 students in 2014-15.

In 2018-19, the total amount earned by Tier 1 students dropped to roughly $6.6 million, the amount earned by Tier 2 students decreased to about $3.75 million, and the amount for Tier 3 students increased to over $2 million. The reason for decreases in Tiers 1 and 2 and an increase in Tier 3 is due to the change in total count of participants in these tiers, as described above.

**FIGURE 12.** Amount of Tuition Credit Earned, by Income Tier, by Academic Years 2014-15 through 2018-19

Source: Auditor’s Office analysis of Denver Preschool Program MetrixIQ pay file data.

Note: Data on Denver Preschool Program tuition credits is from Sept. 1 through Aug. 31 for academic years 2014-15 through 2017-18. For academic year 2018-19 data on tuition credits is from Sept. 1, 2018 through June 6, 2019. Income tier analysis shown is based on household income and size information.
Figure 13 compares overall Denver family trends—based on data from the U.S. Census Bureau—and the total counts of participants in two income brackets. This was to describe how Denver’s population changes may be impacting the participant makeup in the Denver Preschool Program. We used the “below $35,000 annual income” and “above $75,000 annual income” as our two brackets, as these two brackets correspond to the incomes most commonly associated with Tier 1 and Tier 5 participants, respectively.

Overall, and based on U.S. Census Bureau estimates, the number of Denver families making $35,000 per year has declined since 2015, while the number of families making $75,000 per year has increased. Similarly, the data on participants in the Denver Preschool Program shows the students with a reported annual family income of $35,000 or less has decreased between the 2014-15 and the 2018-19 academic years, while the number of students with a reported annual family income of $75,000 or more has increased in that same time frame.

Figure 13 first shows estimates of the total number of families in Denver with annual income levels at or below $35,000 based on the U.S. Census Bureau’s American Community Survey. We relied on the margin of error reported in the survey and compiled it using the “sum of square error” method, as recommended by the U.S. Census Bureau.

FIGURE 13. Estimated Families in Denver with Annual Incomes below $35,000 and above $75,000, by Verified Income Tier, for Academic Years 2014-15 through 2018-19

Source: Auditor’s Office analysis of Denver Preschool Program MetrixIQ pay file and U.S. Census Bureau data.

Note: Data is from Sept. 1 through Aug. 31 each academic year unless otherwise noted. The income tier analysis shown is based on household income and size information.

42 “About the American Community Survey,” U.S. Census Bureau (2018), accessed Aug. 8, 2019, https://www.census.gov/programs-surveys/acs/about.html. American Community Survey data is based on the U.S. Census and updated annually with information gathered through surveys.
Between 2015 and 2018, the overall trend from the U.S. Census Bureau data shows a decrease in families with an annual income of $35,000 or lower. Using bars in the same chart, we show the total counts of participants who reported annual family income below $35,000 and their corresponding income tiers. This analysis shows a decrease in counts of participants with annual incomes of $35,000 from about 2,600 participants to about 2,000 participants. This is similar in the trends for families making less than $35,000 annually, which decreased from 32,500 to 30,000 families over a similar period.

Figure 13 also shows estimates of the total number of families in Denver with annual income levels at or above $75,000, based on the U.S. Census Bureau’s American Community Survey. This includes the margins of error calculated using the method recommended by the U.S. Census Bureau. The overall trend from the census data shows an increase in families with an annual income at or above $75,000 between 2015 and 2018.

Below the census data, the bars show the total counts of participants who reported annual family income at or above $75,000. These bars are further divided into the income tier of the student. This analysis shows an increase in counts of participants with annual incomes at or above $75,000 from about 550 participants to about 950 participants. Participants who reported annual family income above $75,000 are primarily in Tier 5, but because the income tiers consider both income and household size, some participants who reported annual family income above $75,000 are in tiers 2, 3, and 4.

When considering households making more than $75,000 per year, we see increases for both the number of families living in Denver and the number of students served by Denver Preschool Program.
Location of Denver Preschool Program Participants – Figure 14 shows the total number of Denver Preschool Program participants for academic year 2017-2018 by census tract. U.S. Census Bureau census tracts are small, relatively permanent statistical subdivisions, which contain populations of between 1,200 and 8,000 people, with an average size of about 4,000 people. Census tracts in an area with higher population are smaller, while census tracts in an area with lower population density are larger. The darker shades in Figure 14 indicate higher numbers of program participants within the census tract; lighter shades indicate lower numbers of program participants.

An Auditor’s Office analysis of Denver Preschool Program and U.S. Census Bureau data revealed that the highest number of program participants reside in census tracts in the northeastern area of the city—representing the Stapleton, Montbello, Gateway, and Green Valley Ranch neighborhoods. The second highest concentration of program participants reside in the city’s southwestern area, which includes the South Platte, College View, Ruby Hill, and Mar Lee neighborhoods.

The census tracts reflected in this data were developed in 2010 as part of that year’s census. (The U.S. Census is conducted every 10 years.) The population trends were developed using annual data from the U.S. Census Bureau’s American Community Survey for 2015 through 2018. The population has since grown, and Stapleton has grown at a faster rate than the city. It has a higher population density than it did in 2010. Therefore, the 34 percent to 45 percent increase in population in northeastern neighborhoods such as Stapleton—as compared to 11 percent overall population growth in the city between 2010 and 2016—may be a primary driver for why the census tracts surrounding this area of the city reflect the highest count within a census tract for academic year 2017-2018.

FIGURE 14. Number of Denver Preschool Program Participants, by 2010 Census Tract, for Academic Year 2017-18

Participants in Denver Preschool Program
By census tract, 2017–18

Source: City and County of Denver Auditor’s Office analysis of Denver Preschool Program and U.S. Census Bureau data.
Note: Data is from Sept. 1 through Aug. 31 each academic year unless otherwise noted.
Figure 15 illustrates the total amount of tuition credits awarded to Denver Preschool Program participants by census tract for academic year 2017-18. Darker shades indicate larger amounts of tuition credits earned by census tract; lighter shades indicate smaller amounts of tuition credits earned by census tract.43

As shown in Figure 15, the largest amount of tuition credits earned went to participants residing in the city’s northeastern census tracts, followed by tracts located in the city’s west and southwestern areas. The map also indicates that the smallest amount of tuition credits was awarded to program participants residing in the northwestern and central parts of the city.

FIGURE 15. Amount of Denver Preschool Program Tuition Credits Awarded, by 2010 Census Tract, for Academic Year 2017-2018

Source: Auditor’s Office analysis of Denver Preschool Program MetrixIQ pay file and U.S. Census Bureau data.

Note: Data is from Sept. 1 through Aug. 31 each academic year unless otherwise noted.

43 This analysis was based on MetrixIQ data, which calculates how much tuition a provider should be paid based on enrollment, household income and size, attendance, and school quality. For Denver Public Schools, there is a limit for how much tuition credit is paid. When the academic year concludes, the Denver Preschool Program makes reconciliation payments to Denver Public Schools up to the tuition credit earned, as reflected in Metrix IQ data. These reconciliation payments are not reflected in the analysis depicted in Figure 15.
Denver Preschool Program Provider Quality Ratings – As discussed in the background, participating providers for the Denver Preschool Program are required to be evaluated and rated through the Colorado Shines Quality Rating and Improvement System. This is a statewide ratings process used to assess the quality of all licensed early childhood programs. Preschool providers are rated on a scale of one to five—with level one representing programs that are licensed and in good standing to provide services in Colorado and levels three through five representing the highest levels of quality child care.\(^4\)

As shown in Figure 16, auditors’ analysis of participating preschool providers shows about 74 percent of providers are rated at a level four or five for academic year 2018-19.

\[FIGURE \text{16}. \text{Denver Preschool Program Provider Quality Ratings, for Academic Year 2018-19} \]

In fact, additional analysis revealed that most preschool providers that are rated at level one opt not to participate in the program. In 2016-17, about five out of seven of the preschool providers rated at level one exited the program. The remaining two providers rated at level one left the program in 2017-18; however, two providers were rated at level one for the 2018-19 academic year.

Analysis of quality ratings data also shows that of the 285 preschool providers for which there is available historic data for academic years 2016-17 through 2018-19, about 30 percent improved quality ratings, while 2.8 percent of providers experienced decreases in their ratings. Also during this period, 63 percent of providers experienced no change in their ratings.

\(^4\) Providers that have achieved ratings between three and five have demonstrated success in helping staff attain workforce qualifications and professional development, in developing family partnerships, and in cultivating sound leadership, administration, learning environments and child health. Colorado Shines encourages early childhood and learning programs to make ongoing quality improvements to pursue higher ratings and, thus, receive increased access to grant funding for early childhood programs.
**Location of Denver Preschool Program Providers** – As shown in Figure 17, participating providers of the Denver Preschool Program are located throughout the city—except for the area occupied by Denver International Airport, where there are no preschool providers. Each dot in Figure 17 represents a school that participated in the Denver Preschool Program for at least one academic year between 2014-15 and 2018-19. Among the preschool providers shown, there appears to be no geographic concentration of providers by quality rating.

**FIGURE 17.** Geographic Distribution of Denver Preschool Program Providers, for Academic Years 2014-15 through 2018-19

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Preschools serving Denver children
The Colorado Shines Quality Rating and Improvement System rates preschools on a scale of 1 to 5, with 1 being the lowest rating.

**QUALITY RATING**
- 1
- 2
- 3
- 4
- 5

*Source: Auditor's Office analysis of Denver Preschool Program MetrixIQ pay file data and data from the Colorado Department of Human Services' Office of Early Childhood.*
Finally, we evaluated the distance families traveled to go to their school of choice. We found that most families chose a school within 2 miles of their home, as shown in Figure 18. Based on our analysis, we did not notice any discernible differences by household income in the distance traveled.

FIGURE 18. Distance Traveled by Denver Preschool Program Participants, for Academic Years 2014-15 through 2018-19

Percentages may not add up to 100% because of rounding and because some families travel farther than 12 miles.

Source: Auditor’s Office analysis of Denver Preschool Program MetrixIQ pay file data and data from the Colorado Department of Human Services’ Office of Early Childhood.

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For this analysis, distance was calculated using “Euclidean distance,” which represents the distance between two points on a plane or a three-dimensional space.
Also, when viewed by City Council district, families on the east side of Denver travel slightly farther. Despite the noticeable difference, the average distance traveled is still less than 2.4 miles for each City Council district, as shown in Figure 19.

**FIGURE 19.** Average Distance Traveled by Denver Preschool Program Participants, for Academic Years 2014-15 through 2018-19

Distance traveled to reach preschool
By council district, 2014–15 academic year through May 2019

Source: Auditor’s Office analysis of Denver Preschool Program MetrixIQ pay file data and data from the Colorado Department of Human Services’ Office of Early Childhood.
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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