FOLLOW-UP REPORT
Denver Preschool Program
Office of Children's Affairs
November 2020

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City and County of Denver
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City and County of Denver

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November 5, 2020

AUDITOR'S LETTER

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

I am pleased to report that Denver Preschool Program Inc. and the Office of Children's Affairs fully implemented all 13 recommendations we made in the "Denver Preschool Program" audit report issued in October 2019. Denver Preschool Program Inc. and its board developed and implemented numerous policies to help improve oversight of the program and help ensure city funds are spent toward increasing Denver residents' access to quality preschool. Furthermore, the city's Office of Children's Affairs has implemented processes to provide necessary and important monitoring of the program's effectiveness in supporting quality preschool services with taxpayer dollars.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

I would like to express our sincere appreciation to the personnel at Denver Preschool Program Inc. and the Office of Children's Affairs who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor's Office

Timothy M. O'Brien, CPA
Auditor

Denver Preschool Program

November 2020

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% (now 0.15%) 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 from Original Audit

Our audit found the city inadequately monitored 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 did not fully align with thresholds codified in city ordinance.
- Denver Preschool Program Inc. accumulated over $20 million in unspent Denver preschool tax revenue but had no formal plan for this operating reserve. This impaired the organization's ability to navigate risks that could adversely impact the program's operations and financial performance.
- Denver Preschool Program Inc. did not have a well-defined policy to guide investment of the organization's operating reserve balance. Because the operating reserve funds were in a commercial money market savings account, the return on investment was only about $50,000 from 2015 through 2018. We estimated 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 did not reflect leading practices for monitoring contract compliance, which impaired the city's ability to ensure Denver Preschool Program Inc. and third-party vendors delivered in a manner that reflected the terms and conditions of the contracts and that prioritized good stewardship of taxpayer dollars.
- The Denver Preschool Program Board of Directors lacked policies and procedures to ensure effective program oversight, to guide decision-making, and to support board operations.

13	0	0
FULLY IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED

Nov. 5, 2020

Action Since Audit Report

Denver Preschool Program

13 recommendations proposed in October 2019

FULLY IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED
13	0	0

We found Denver Preschool Program Inc. and the Office of Children's Affairs fully implemented all recommendations and mitigated the risks identified during the original audit.

Both Denver Preschool Program Inc. and the Office of Children's Affairs took the necessary steps to improve their monitoring of the program — including its funding, investments, and contracts. Additionally, the Denver Preschool Program Board of Directors developed all policies requested in the audit recommendations.

With these actions, Denver Preschool Program Inc. is in a better position to continue its support of quality preschool services for Denver residents, and the board is in a better position to provide effective and consistent governance over the organization. These actions should create greater opportunities to expand program participation, which means offering learning opportunities to more Denver children.

Because both the nonprofit organization and the city agency fully implemented all recommendations, we conclude our follow-up effort related to the "Denver Preschool Program" 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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: March 31, 2020

City ordinance specifies that at least 93% of projected annual revenue from the Denver preschool tax must be used for program services. Between 2015 and 2018, only 83% to 91% of the projected tax revenue was used for program services, which fell below the 93% threshold. Our follow-up review of Denver Preschool Program Inc.'s budget determined the percent of estimated tax revenue budgeted for program services in 2020 is 100%, which is in line with both the contract and city ordinance.

Because the Denver Preschool Program plans for its budgeting and spending practices to conform with the thresholds established in city ordinance and the city's contract, the audit team considers this recommendation fully implemented.

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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: March 31, 2020

The Denver Preschool Program Board of Directors and Denver Preschool Program Inc. created and began using an operating reserve policy in February 2020. We found this policy establishes a goal to have adequate funds to continue providing families with tuition credit for high-quality preschool services during any economic downturn.

Additionally, the new operating reserve policy is consistent with leading nonprofit management practices by discussing short-term and long-term financial forecasting and planning, while identifying target amounts for the reserves and ways to continue funding them. The program's policy also clearly defines roles and responsibilities for authorizing spending, monitoring balances, and reporting on the use of reserve funds.

Furthermore, through our review of the program's budget documentation and board meeting documentation, we found that the use of the reserves was discussed frequently in alignment with the reserve policy, including how reserves would be impacted by the COVID-19 pandemic. Therefore, we consider this recommendation fully implemented.

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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: March 31, 2020

In January 2020, Denver Preschool Program Inc.'s president and chief executive officer and other program representatives met with leadership from the Office of Children's Affairs and officials from the city's Department of Finance and the City Attorney's Office to discuss a process to monitor and annually review program appropriations.

Minutes from that meeting show the parties discussed potential appropriation adjustments as outlined in the contract. Our review also determined that continuous monitoring of program appropriations occurs through monthly reviews and an annual reconciliation.

Because Denver Preschool Program Inc. consulted with the Department of Finance to determine the extent to which program appropriations should be adjusted in compliance with the "budget/carry forward" provisions outlined in the contract and because these meetings will continue annually along with the monthly reviews, the audit team considers this recommendation fully implemented.

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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: March 31, 2020

Denver Preschool Program Inc. provided minutes of a January 2020 meeting when the Denver Preschool Program Board of Directors, program staff, and officials from the Office of Children's Affairs, the city's Department of Finance, and the City Attorney's Office met to discuss a process to review the program's distribution formula.

During the meeting, participants agreed Denver Preschool Program Inc. would send its draft budget to the Office of Children's Affairs and the Department of Finance for review. After these city representatives reviewed the budget, Denver Preschool Program Inc. would add to the budget narrative that this review had taken place and note whether there was a proposed change to the administrative or program distribution formula. This process is to occur each year during the program's annual budgeting process.

Because Denver Preschool Program Inc. consulted with the Department of Finance and the City Attorney's Office this year and plans to do so each year to determine whether the distribution formula established in the city's contract with the nonprofit should be amended to more appropriately reflect the program's current resource needs, the audit team considers this recommendation fully implemented.

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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: March 31, 2020

The Denver Preschool Program Board of Directors approved an investment policy in February 2020. We found this policy aligned with city investment guidance and leading nonprofit practices by saying investment objectives should reflect the program's short-term and long-term goals, while minimizing risk and exercising care with any investments.

We also determined the investment policy describes the program's resource needs and ways to obtain higher investment returns, similar to those identified in the city's investment plan, to help benefit the program. The preschool program's 2017-2021 strategic plan also identified principles — in alignment with nonprofit best practices — to use research and data to guide investments to adapt to changing community needs and to consider the social impact of investment returns.

Finally, we noted that in February 2020, Denver Preschool Program Inc. transferred $15 million of its reserve funds from a low-yield money market savings account to an insured cash sweep account with a higher interest rate. This increased the investment income available for the program. As such, we consider this recommendation fully implemented.

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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: March 31, 2020

The Office of Children's Affairs developed and began using a contract administration plan in June 2020 to monitor the Denver Preschool Program. It is to be updated annually.

We found this plan is consistent with city guidelines from Executive Order 8 to help ensure the program meets contractual requirements by listing key program deliverables required to monitor the program and identifying city personnel responsible for this monitoring.

We also determined the Office of Children's Affairs' contract administration plan aligns with leading practices for contract monitoring by including an assessment of risks to the program achieving its goals and requiring periodic reports to help monitor the success of the program.

Finally, we obtained minutes from Denver Preschool Program Board of Directors meetings and other documentation identified in the Office of Children's Affairs' contract administration plan that showed Children's Affairs staff attended meetings to monitor the program's operational and financial discussions and decisions. Therefore, we consider this recommendation fully implemented.

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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: May 31, 2020

The Denver Preschool Program Board of Directors worked with the Employers Council and the Office of Children's Affairs to create a contract monitoring policy and template. In addition to the policy and template, the board provided several examples of its new contract administration plans for several contractors.

The detailed contract administration template includes contract-specific policies and procedures that reflect contract monitoring guidelines established in the city's Executive Order 8 and leading practices for monitoring methods, record keeping, and assessing risk to guide contract monitoring activities.

For example, contract monitoring methods in the plan include documenting roles and responsibilities, establishing a meeting schedule, and documenting the schedule and deliverables for the year. Record-keeping methods include establishing an invoice and payment process and a storage and maintenance process. We found program officials assess risk through a risk and issue management plan.

As a result, we consider this recommendation to be fully implemented.

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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: May 31, 2020

The Denver Preschool Program Board of Directors worked with outside consultants to create a board manual that board members approved in February 2020.

In reviewing the manual, we learned a whistleblower policy consistent with leading practices for nonprofit management was created and documented. The policy extends to individuals who report activities like fraud and corruption, and it also addresses protections for reporting.

Program representatives could not provide further documentation showing how the policy was implemented. However, they told us the board was aware of the new manual and whistleblower policy, and they said the board member orientation process includes a review of this policy. Further, the new manual requires that new board members review the manual within the first month of their appointment.

We determined that, based on the documentation provided, the board's establishment of the policy and its members' awareness of it demonstrates full implementation of this recommendation.

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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: April 30, 2020

We found the new board manual also contains a formal meeting attendance policy consistent with leading practices for nonprofit management. The policy describes attendance requirements, meeting frequency, and meeting notification and scheduling information. The policy also notes that records of board meeting attendance should be kept, and it dictates the outcome for board members who have too many absences. Additionally, preschool program staff provided us with the board member attendance tracking document they now use to monitor attendance.

Because the Denver Preschool Program Board of Directors created an attendance policy and is tracking monthly attendance, we consider this recommendation fully implemented.

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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: April 30, 2020

Our review of the new board manual also found that the board developed and documented a formal policy for financial literacy training consistent with leading practices for nonprofit management. Specifically, the policy says this training should highlight how to read and understand financial reporting and definitions of financial nomenclature. Additionally, the board's January 2020 and June 2020 meeting minutes showed board members received training on financial statements and future tax revenue scenarios.

Because Denver Preschool Program Inc. developed and adhered to formal, documented training policies to ensure all board members receive financial literacy training, we consider this recommendation fully implemented.

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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: April 30, 2020

Consistent with leading practices, the new board manual also includes a documented policy that says the board must conduct annual training relevant to board governance, bylaws, and policies. According to the policy, the board is required to annually review the Denver Preschool Program's vision, mission, bylaws, and policies — as well as the board's organizational structure with regard to its alignment with the mission and strategic plan. The program's progress and challenges toward achieving its goals are also to be reviewed each year.

Although the board developed formal, documented policies requiring its members to review the board's governance structure annually, such a review has not yet occurred. It is scheduled to take place in December 2020.

However, because the board formally approved its manual in February 2020, we find it reasonable that the first review of the governance structure is scheduled for later this year. Therefore, we consider this recommendation fully implemented.

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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: April 30, 2020

The new board manual, adopted in February 2020, also contains a self-evaluation policy that outlines the processes for the annual board review and an annual individual review for the president and chief executive officer. Denver Preschool Program Inc. also provided us with the board's assessment template; it includes the questions posed during the 2019 annual assessment, which was administered by a third party.

After reviewing summary results of the 2019 assessment, we determined the board completed and documented the results of the annual review consisted with leading practices for nonprofit management. As a result, we consider this recommendation fully implemented.

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.

FULLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: April 30, 2020

Although we found the new board manual includes a documented retention policy consistent with leading practices for nonprofit management and a destruction schedule consistent with the city's retention policies, we noted the policy does not describe document retention periods.

However, after reviewing the Denver Preschool Program's more detailed retention policy, we determined the board had developed a policy that clearly reflects retention periods to ensure all key documentation is retained in an appropriate manner and for a period consistent with the city's record retention policies.

As a result, we consider this recommendation fully implemented.

Office of the Auditor

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