AUDIT REPORT

Office of Children's Affairs

Denver College Affordability Fund Program

JULY 2023

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City and County of Denver

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AUDITOR'S LETTER

July 20, 2023

We audited the Denver College Affordability Fund program — overseen by the Office of Children's Affairs — to examine how well the tax-funded program's nonprofit administrator, Prosperity Denver Fund, and its supported organizations have ensured students were eligible to benefit from the program and whether amounts reimbursed to supported organizations were accurate. I now present the results of this audit.

We found the program's oversight and data management practices do not ensure accurate and complete records for serving students. We also found Prosperity Denver Fund and some supported organizations have not adequately verified students' eligibility since the program began in 2018. Some supported organizations lack sufficient documentation to support every scholarship payment they made and the cost of support services they provided for eligible students.

By implementing recommendations for stronger oversight, policies for student eligibility, and a comprehensive data management plan, the Office of Children's Affairs will be better able to supervise the Denver College Affordability Fund program to ensure student eligibility documentation is obtained and retained, that all costs at supported organizations have accurate supporting evidence, and that reports to the city are complete and accurate.

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." We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We appreciate the leaders and team members from the Office of Children's Affairs, Prosperity Denver Fund, and the supported organizations who shared their time and knowledge with us during the audit. Please contact me at 720-913-5000 with any questions.

Denver Auditor's Office

Timothy M. O'Brien, CPA
Auditor

Denver College Affordability Fund Program

JULY 2023

Objective

To review the tax-funded College Affordability Fund program and determine how well Prosperity Denver Fund and the program's supported organizations have ensured students were eligible for scholarship and support services reimbursements and whether the amounts paid out were accurate.

Background

In 2018, a voter-initiated ordinance established a 0.08% sales and use tax increase to pay for scholarships to post-secondary institutions and related support services.

The nonprofit Prosperity Denver Fund was created to distribute the designated tax dollars and administer the city's College Affordability Fund program. Prosperity Denver reimburses qualifying nonprofits, called "supported organizations," for the scholarships and support services they provide to eligible Denver students.

The Office of Children's Affairs manages the city's contract with Prosperity Denver Fund.

REPORT HIGHLIGHTS

Minimal oversight and insufficient data management practices do not ensure accurate and complete records for serving students

- Prosperity Denver's data is fragmented and contains inaccuracies and missing details. Prosperity Denver does not use data analytics to look for potential errors or fraud.
- Prosperity Denver does not collect information about all students served or their demographics. Prosperity Denver currently has no unique identifiers for some students, making it difficult to determine how many the city serves.
- Prosperity Denver did not research all potential issues regarding student eligibility related to known errors its consultant had found before our audit.

Prosperity Denver Fund and some supported organizations have not adequately verified eligibility for some students

- Prosperity Denver mostly relies on the 35 supported organizations to establish and confirm students' eligibility and to maintain supporting documentation.
- Prosperity Denver should expand its requirements for what documents the supported organizations should have. In our sample, we found some students were ineligible or documentation was missing.
- Children's Affairs has not ensured Prosperity Denver has adequate policies and procedures to confirm student eligibility in all cases.

Some supported organizations lack sufficient documentation to support every payment for eligible students

Some supported organizations do not keep sufficient records to verify scholarship payments to post-secondary institutions, reimbursements from Prosperity Denver, or their calculations for support services costs.

WHY THIS MATTERS

Voters approved the College Affordability Fund program to help Denver students from low-income families be better able to pay for the high costs of a college education.

But without sufficient and reliable data and verification of source documentation, the program may not operate as voters intended. This exposes the city to a heightened risk of errors and potential fraud, and the city cannot be transparent about who the program helps.

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BACKGROUND

Pursuing a post-secondary education can create opportunities for greater income and a better quality of life, which also has the communitywide impact of helping residents contribute to the broader local economy. But the financial burden that comes with pursuing higher education can discourage many potential students.[1]

Before the COVID-19 pandemic, just under half of Denver's high school students were reportedly able to afford college.[2] Because of the pandemic, this number has decreased — leaving more Denver students at risk of not having the necessary skills to thrive in an ever-changing job market.

2018 voter-initiated ordinance

Recognizing the problem of college affordability, Denver residents approved a voter-initiated ordinance in November 2018 that established a 0.08% sales and use tax increase to help eligible Denver residents from families with lower incomes pay for college and related support services.[3] As of this audit, we know of no other such city program in the nation.

The ordinance required the creation of a nonprofit organization whose sole purpose is to administer the city's new College Affordability Fund program.[4] Prosperity Denver Fund was formed to meet this requirement, and the city contracted with the new nonprofit in September 2019.

As required by city ordinance, the nonprofit Prosperity Denver Fund was created to administer the College Affordability Fund program under a contract with the city.

This setup is similar to the Caring for Denver program and the Denver Preschool Program — both of which were established by voter-initiated ordinances that required an outside nonprofit to be created to administer program operations.

RECENT ORDINANCE CHANGES

The Denver City Council approved changes to the College Affordability Fund ordinance on May 22, 2023 — after we concluded our audit fieldwork. Therefore, this audit is based on the prior version of the ordinance in effect before the new ordinance changes passed.

See pages 10-12 for more details on the evolution of the ordinance. Additionally, click the link here to read the complete and current ordinance language.

[1] "A Strong Economy is Built on Education," Who We Are webpage, Prosperity Denver Fund, accessed Oct. 24, 2022, https://www.prosperitydenverfund.org/about.

[2] "A Strong Economy is Built on Education," Who We Are webpage, Prosperity Denver Fund.

[3] Denver Revised Municipal Code § 11-33(b) (2020) and 53-56(k).

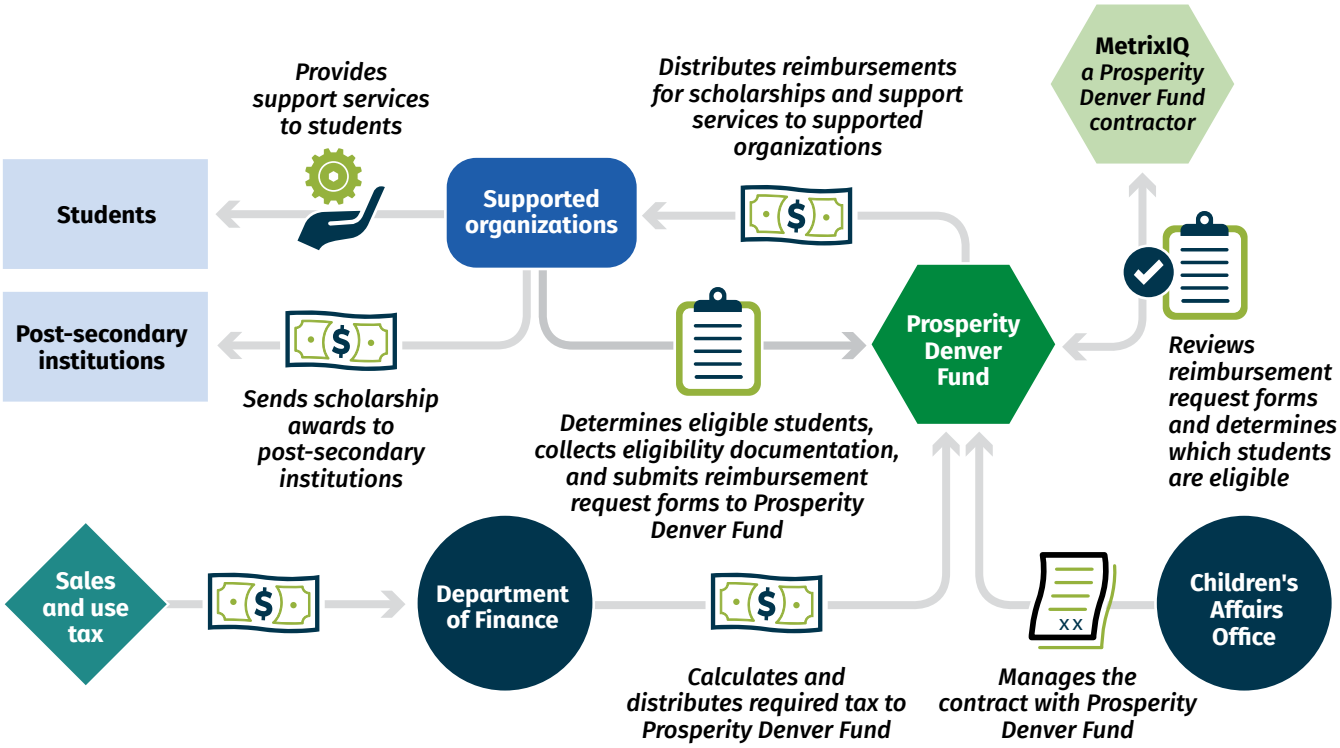
[4] Denver Revised Municipal Code § 11-31(2) (2020).

With the College Affordability Fund program, neither the city nor Prosperity Denver directly offers scholarships or support services to students. To benefit from the city's designated tax revenue, eligible students must first be awarded scholarships through a qualifying nonprofit, also called a "supported organization."

As shown in Figure 1, the city collects the voter-approved sales and use tax revenue and then passes it on to Prosperity Denver Fund. Prosperity Denver uses the tax dollars to reimburse the supported organizations for college scholarships and related support services they provided to eligible Denver students in the prior school year.

Prosperity Denver paid out the first reimbursements in 2020 — about $5.3 million worth for scholarships and support services provided in the 2018-19 school year.

FIGURE 1. How the city's college affordability program funds reach students in need



Note: *This audit is based on the prior version of city ordinance in effect before new ordinance changes passed in May 2023.*

Source: *Auditor's Office illustration using information from city ordinance, interviews with city staff and staff from Prosperity Denver Fund, and Prosperity Denver's policies and procedures.*

Oversight and governance responsibilities

City ordinance and the contract with Prosperity Denver Fund make the city's finance manager and the director of the Office of Children's Affairs responsible for overseeing the College Affordability Fund program.[5]

OFFICE OF CHILDREN'S AFFAIRS – Children's Affairs is responsible for overall oversight of the program and managing the contract between the city and Prosperity Denver Fund.

The city's Executive Order No. 8 says contracts are one of the city's highest priorities.[6] It requires each agency to ensure contract compliance throughout the life of a contract — including ongoing monitoring by assigned staff. It says ongoing evaluation is essential for the successful execution of a contract.

The contract with Prosperity Denver was signed in September 2019 and its initial term lasted through June 2020. The city can continue the contract every year for 11 years or until all of the designated tax revenue is paid out — which could make the agreement last longer than 12 total years. The original contract timeline is consistent with provisions in city ordinance that call for tax collections to end on Dec. 31, 2030.[7] The program can continue operating until all funds are paid out.

The contract language mostly mirrors the requirements in city ordinance. It requires Prosperity Denver to submit yearly reports as well as quarterly reports and an annual work plan to the Office of Children's Affairs. These reports should detail the nonprofit's compliance with the contract as well as action plans to meet yearly goals. The contract also allows unspent administrative funds to be carried forward for use in future years.

Staff in the Office of Children's Affairs hold monthly calls with Prosperity Denver Fund to hear updates on the nonprofit's operations. In addition, city staff attend Prosperity Denver's board meetings and review board documents, which serve as the required quarterly reporting.

FINANCE DEPARTMENT – The city's Finance Department pays Prosperity Denver Fund each month based on the sales and use tax revenues estimated for the year. Staff adjust this amount annually once actual tax revenues for the past year are known.

PROSPERITY DENVER FUND – Prosperity Denver is the third-party contractor that manages the College Affordability Fund and its day-to-day operations, while the city's Office of Children's Affairs oversees the program.

Prosperity Denver Fund has two employees and is governed by a seven-member board of directors. Six members are appointed by the mayor and confirmed by the City Council. The seventh member is a member of the City Council, appointed by the council.[8]

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[5] Denver Revised Municipal Code § 11-31(a) (2020).

[6] Exec. Order No. 8, City and County of Denver (2011), accessed May 31, 2023, https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/8-Contracts-Other-Written-Instruments-CCD.pdf.

[7] Denver Revised Municipal Code § 53-56(k).

[8] Denver Revised Municipal Code § 11-31(b)(3) (2020).

The board is responsible for implementing the city ordinance and reporting annually to the mayor, the City Council, and the elected Auditor. The board meets every two months to discuss business and approve reimbursements once Prosperity Denver Fund's consultant reviews requests from supported organizations and checks students' eligibility. The board can determine what does and does not qualify for reimbursement.

Since its founding, Prosperity Denver has contracted with a third-party consultant. The firm manages portions of the reimbursement process for the nonprofit, while Prosperity Denver's staff handle the applications for supported organizations seeking to become qualified. Prosperity Denver's staff also provide training, answer questions, and provide updates to the board of directors and the city.

In fiscal years 2021 and 2022, Prosperity Denver paid its consultant about $100,000 annually for program support and database management and development — or about 17% of Prosperity Denver's annual administrative expenses across those two years.

In 2022, the consultant did quality assurance reviews of two supported organizations. The company is also working with Prosperity Denver to create a database to manage data for the college affordability program.

Funding and expenses

Since Prosperity Denver's 2019 fiscal year, the annual revenue collected from this designated portion of sales and use tax has steadily increased from $8.9 million collected in the first year to $14.5 million collected in fiscal year 2022, as shown in Figure 2 on the next page. According to Prosperity Denver Fund's required audited financial statements, total tax revenues for the program were about $46.4 million as of Sept. 30, 2022. Prosperity Denver Fund's fiscal years run Oct. 1 through Sept. 30.

Since 2019, the financial statements show Prosperity Denver has paid out about $20.9 million to supported organizations — or 45% of all revenue collected. It has spent about $1.9 million on administrative expenses, and as of Sept. 30, 2022, it had accumulated $29.3 million in cash. Of that, about $5.4 million is designated for pending reimbursements.

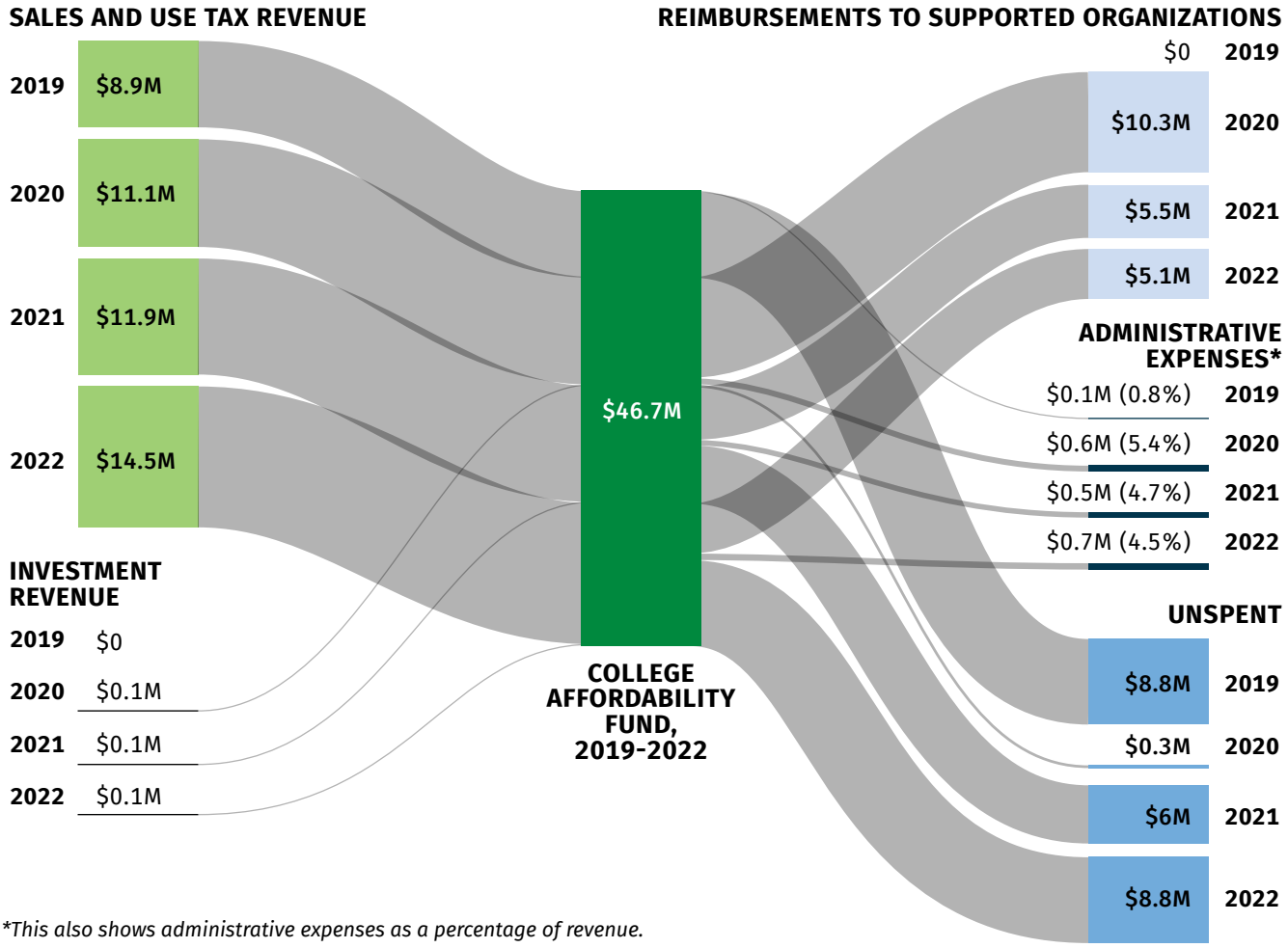
Total tax revenues for the college affordability program were about $46.4 million as of Sept. 30, 2022.

Qualifying supported organizations can apply twice a year — each fall and spring — to receive tax-funded reimbursements through Prosperity Denver. For example, the payments Prosperity Denver made to supported organizations in fall 2022 reimbursed them for scholarships and support services provided to eligible students in the 2021-22 school year.

The voter-initiated ordinance originally required that 95% of the designated sales tax revenue go toward reimbursing supported organizations, while the remaining 5% could be used for Prosperity Denver's administrative costs. The original ordinance made an exception for the first year of the program, when Prosperity Denver was allowed to use up to 10% for administrative costs to help set up operations.[9]

[9] Denver Revised Municipal Code § 11-32(2) and (3) (2020).

FIGURE 2. Overall revenue and spending for the College Affordability Fund program, by fiscal year



*This also shows administrative expenses as a percentage of revenue.

Note: *Prosperity Denver Fund's fiscal years run Oct. 1 through Sept. 30.*

Source: *Auditor's Office illustration based on information from Prosperity Denver's audited financial statements through Sept. 30, 2022.*

The audited financial statements show the highest percentage Prosperity Denver had spent on administrative expenses in a single fiscal year so far was 5.4% in 2020. The city's contract with Prosperity Denver allows the nonprofit to carry over unspent administrative funds to future years. Because Prosperity Denver spent far less than the 10% allocated in 2019, it could use the leftover funds in future years. Furthermore, the contract for the College Affordability Fund program allowed spending over 5% on administrative costs in a given year as long as the average across two years did not exceed the 5% cap. This requirement changed in May 2023.

The ordinance requires Prosperity Denver to provide its audited financial statements to the city annually. Additionally, city ordinance subjects Prosperity Denver to audits by the Denver Auditor's Office.[10]

[10] Denver Revised Municipal Code § 11-31(a) and (5)(III) (2020).

The Denver College Affordability Fund program

Under the original ordinance, the city's College Affordability Fund program supports two forms of student financial aid through the tax-funded reimbursements Prosperity Denver makes to supported organizations on behalf of the city: scholarships and related support services.

- Scholarships help reduce a student's cost to attend a post-secondary institution, such as a two-year or four-year program at a college, university, or technical school. Costs eligible for reimbursement using the college affordability funds include tuition, fees, room and board, and books and supplies.
- Meanwhile, support services are meant to increase the likelihood a student will graduate from college. These can include tutoring services, advice and help in applying for admission to a two-year or four-year program or choosing courses, coaching toward graduation, other financial aid assistance, education and counseling to improve a student's financial and economic literacy, career and academic counseling, and mentoring programs.[11]

STUDENT ELIGIBILITY – Before the May 2023 ordinance changes, for a student to be eligible to receive aid through the College Affordability Fund program, city ordinance required they:[12]

- Be a Denver resident for three consecutive years before their first day attending a post-secondary institution, with limited exceptions.[13]
- Complete a Free Application for Federal Student Aid — also known as a FAFSA — or show a similar measure of financial need as determined by Prosperity Denver Fund.
- Attend an accredited nonprofit or public post-secondary institution in Colorado.
- Be in good standing with this institution — that is, the student must achieve "satisfactory academic progress" as determined by their institution.
- Be no older than 25 on the last scheduled day of class in the school year for which reimbursement is requested by the supported organization.

Nothing restricts an eligible student to receiving only one tax-funded scholarship or support service during a school year.

Nothing restricts an eligible student to receiving only one tax-funded scholarship or support service during a school year. An eligible student could receive scholarships from several supported organizations, and each of them could ask Prosperity Denver Fund for reimbursement through the city's College Affordability Fund program.

SUPPORTED ORGANIZATIONS – Supported organizations receive funds from Prosperity Denver Fund on a reimbursement basis. Meaning, a qualifying

[11] Denver Revised Municipal Code § 11-34 (2020).

[12] Denver Revised Municipal Code § 11-33 (2020).

[13] The ordinance includes a temporary exception that says a student is still eligible if their first scheduled post-secondary class day was before Jan. 1, 2021, and they attended their last three years of high school in Denver. If a student temporarily leaves Denver after attending high school, they do not lose eligibility.

supported organization must first raise its own money to provide scholarships and support services to students. Once the organization can determine a student's eligibility, such as verifying their satisfactory academic progress, only then can the organization request reimbursement from Prosperity Denver Fund to receive a portion of the designated tax revenue collected for the city's College Affordability Fund program. Supported organizations can be reimbursed only up to 75% of the cost of the scholarship or support service provided.[14]

For a nonprofit to qualify as a supported organization, city ordinance says it must:[15]

- Be in good standing with the Colorado Secretary of State's Office.
- Be approved by the IRS as a tax-exempt charitable organization.
- Have existed for at least three years.
- Be separate from any post-secondary institution.
- Submit a report each year containing enough information for Prosperity Denver Fund to conduct a reasonable audit.

Thirty-five supported organizations have received a share of the $20.9 million paid out through the College Affordability Fund program since 2020, when reimbursements were first paid for the 2018-19 school year.

These are four of the supported organizations we discuss in this audit:

- **THE DENVER SCHOLARSHIP FOUNDATION** – This is the largest supported organization, and it has received most of the college affordability funds paid out so far. It works with students in grades nine through 12 by providing pre-college support in 15 "Future Centers" in Denver public high schools. The organization also awards needs-based scholarships to all qualifying graduates of Denver Public Schools who attend one of 31 partner colleges in Colorado.

SUPPORTED ORGANIZATIONS

Qualifying supported organizations are nonprofits that provide scholarships and support services directly to Denver students. To take advantage of the designated sales and use tax revenue collected for the city's College Affordability Fund program, qualifying supported organizations can seek reimbursement from Prosperity Denver Fund once they determine a student meets eligibility requirements.

See Appendix C for a list of the top 15 supported organizations and how much they have received from the city.

[14] Denver Revised Municipal Code § 11-34(5) (2020).

[15] Denver Revised Municipal Code § 11-34 (2020).

- **THE LATIN AMERICAN EDUCATIONAL FOUNDATION** – This organization provides scholarships and ongoing support to students and families, with the goal of increasing access to higher education opportunities for Latino students and helping them improve their livelihoods.[16]
- **THE SACHS FOUNDATION** – This organization seeks to further racial equity for Black Coloradans by supporting education, health, and well-being through student enrichment, financial support, and professional development.[17] The foundation says its partnership with Prosperity Denver has allowed it to work toward its goal of supporting one-third of individuals' college attendance costs.
- **THE NORTH SIDE HIGH SCHOOL ALUMNI ASSOCIATION SCHOLARSHIP FOUNDATION** – This volunteer-based organization awards scholarships to high-performing graduating seniors at Denver North High School.[18]

The supported organizations sometimes have more stringent criteria for student eligibility than city ordinance requires. For example, the Denver Scholarship Foundation awards its scholarships to only those students who attend a Denver public high school for four years. This policy automatically excludes students from receiving the city's tax-funded aid if they attended a Denver high school for less than four years.

Prosperity Denver Fund requires the supported organizations to keep documentation for three years relating to the tax-funded reimbursements they receive.

To remain eligible for reimbursement, each supported organization is required to sign an annual agreement with Prosperity Denver. The agreement requires the supported organization, among other provisions, to keep reimbursement requests and payment documentation for three years.

REIMBURSEMENTS FROM THE CITY – Denver ordinance includes specific requirements for how Prosperity Denver can reimburse a supported organization when both the supported organization and an individual student meet the minimum qualifications for eligibility:[19]

- Reimbursements to qualifying supported organizations cannot exceed 75% of the amount the supported organization spent on a student's scholarships and support services.
- Reimbursements can go only to students whose expected family contribution is no more than 250% of the maximum expected family contribution that would qualify for a

QUALIFICATION AND REIMBURSEMENT PROCESS

See Appendix D for more details on how Prosperity Denver Fund qualifies and reimburses supported organizations.

[16] "About Us," Latin American Educational Foundation, accessed May 22, 2023, http://www.laef.org/aboutus.

[17] "About Us," Sachs Foundation, accessed May 22, 2023, https://www.sachsfoundation.org/about-us.

[18] "NSHSAA Scholarship Foundation," North Side High School Alumni Association Scholarship Foundation webpage, Denver North High School, accessed May 22, 2023, https://north.dpsk12.org/alumni/nshsaa-scholarship-foundation.

[19] Denver Revised Municipal Code § 11-34 (4)-(6) (2020).

federal Pell Grant or a similar measure of financial need.[20]

An "expected family contribution" is calculated according to a formula established by federal law. It considers a family's taxed and untaxed income, assets, and benefits such as unemployment or Social Security.[21] For the 2022-23 school year, 250% of the maximum expected family contribution would be about $15,500.[22]

Reimbursements for scholarships and support services are paid out on a sliding scale, which is determined by Prosperity Denver Fund and based on a student's financial needs for their first school year of post-secondary education.

Prosperity Denver's policy for scholarship reimbursement calculations lays out the rules, which have been in effect since the 2019-20 school year. For example, if a student's maximum expected family contribution was between 200% and 250% of the eligibility threshold for a federal Pell Grant, their supported organization may be reimbursed only 70%. If the student demonstrated a greater level of financial need, the reimbursement could be for the full 75% allowed.

Reimbursements for support services cannot exceed a percentage of the total amount reimbursed for a student. Prosperity Denver's board of directors must establish this percentage each year. Prosperity Denver's current policy sets this limit to 50% of the total reimbursement, so reimbursements for support services cannot exceed reimbursements for scholarships.

Program impact

As part of its required periodic reporting, Prosperity Denver Fund collects and publicly shares various metrics on the performance and impacts of the city's College Affordability Fund program, as shown in Figure 3 on the next page.[23] Typically, about three-quarters of the roughly $5 million in funding distributed each year has been in the form of scholarships.

Because nonprofits can apply for reimbursements each fall and spring for the prior school year, the most recent distribution was in spring 2023 for the 2021-22 school year. Complete data for the 2021-22 school year was not available as of mid-May 2023.

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[20] Federal Pell Grants are usually awarded only to undergraduate students who show exceptional financial need and who have not earned a bachelor's, graduate, or professional degree. Typically, Pell Grants do not have to be re-paid. "Am I eligible?" Federal Pell Grants webpage, U.S. Department of Education, accessed May 16, 2023, https://studentaid.gov/understand-aid/types/grants/pell.

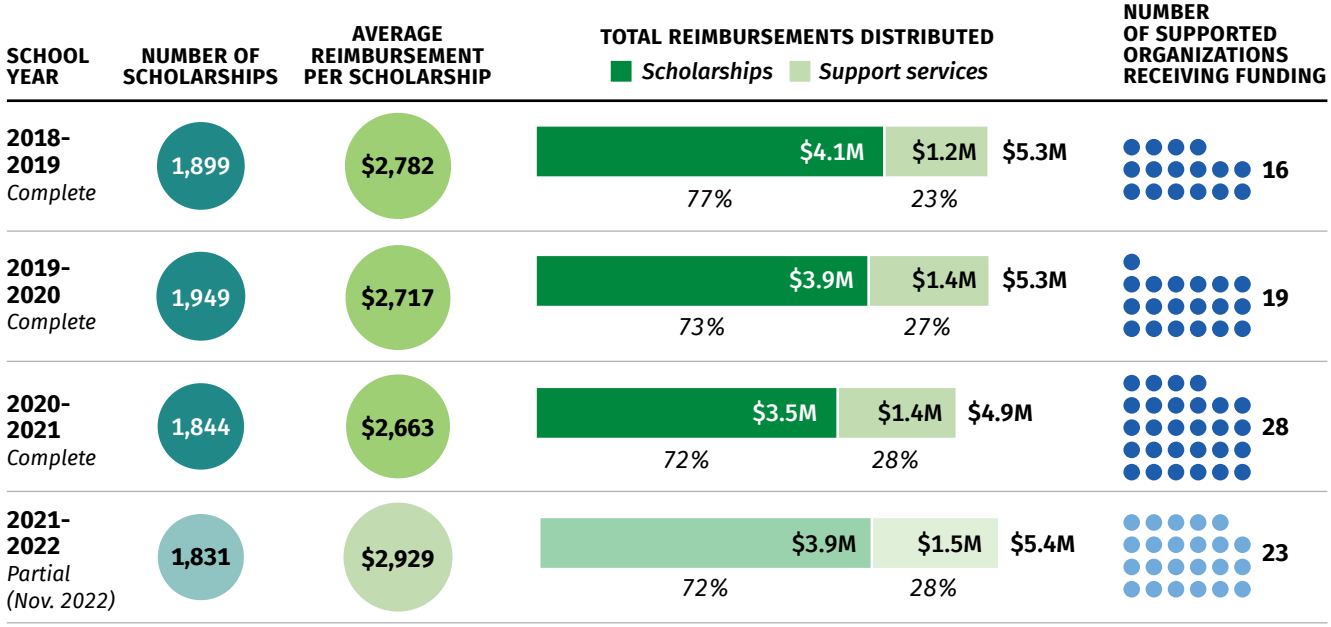
[21] "What Is My Expected Family Contribution (EFC)?" Federal Student Aid webpage, U.S. Department of Education, accessed June 6, 2023, https://studentaid.gov/help-center/answers/article/what-is-efc.

[22] Federal Student Aid, U.S. Department of Education, "(GEN-22-04) Revised 2022-2023 Federal Pell Grant Payment and Disbursement Schedules," accessed March 8, 2023, https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2022-03-24/revised-2022-2023-federal-pell-grant-payment-and-disbursement-schedules.

[23] Prosperity Denver Fund, "Strategic Framework Report" (December 2022), accessed May 27, 2023, https://www.prosperitydenverfund.org/wp-content/uploads/2023/01/PDF-Strategic-Framework-Dec-2022.pdf.

FIGURE 3. Prosperity Denver Fund's performance metrics for the College Affordability Fund program

We counted scholarships for each individual school year. For instance, if a student was awarded a four-year scholarship, it appeared as four scholarships — one for each school year — in Prosperity Denver Fund's data.



Note: *The total dollar amounts shown here reflect school years, while the amounts in Figure 2 reflect fiscal years. Therefore, the yearly amounts are different. Prosperity Denver's "Strategic Framework Report" incorrectly identified the number of scholarships per year as the number of students, which we discuss in Finding 1. Variances in percentages are due to rounding.*

Source: *Auditor's Office illustration based on information from Prosperity Denver Fund, accounting for all disbursements made through fall 2022.*

To further illustrate the impact of this program on Denver students and their ability to afford a post-secondary education, Figure 6 in Appendix B shows information about average tuition costs for Colorado residents attending selected post-secondary institutions.

The average annual cost of tuition for undergraduates at selected in-state schools is around $22,500 — while the average annual scholarship from supported organizations has been at just under $2,900 and the average annual reimbursement to supported organizations has been $2,200.

Recent ordinance changes

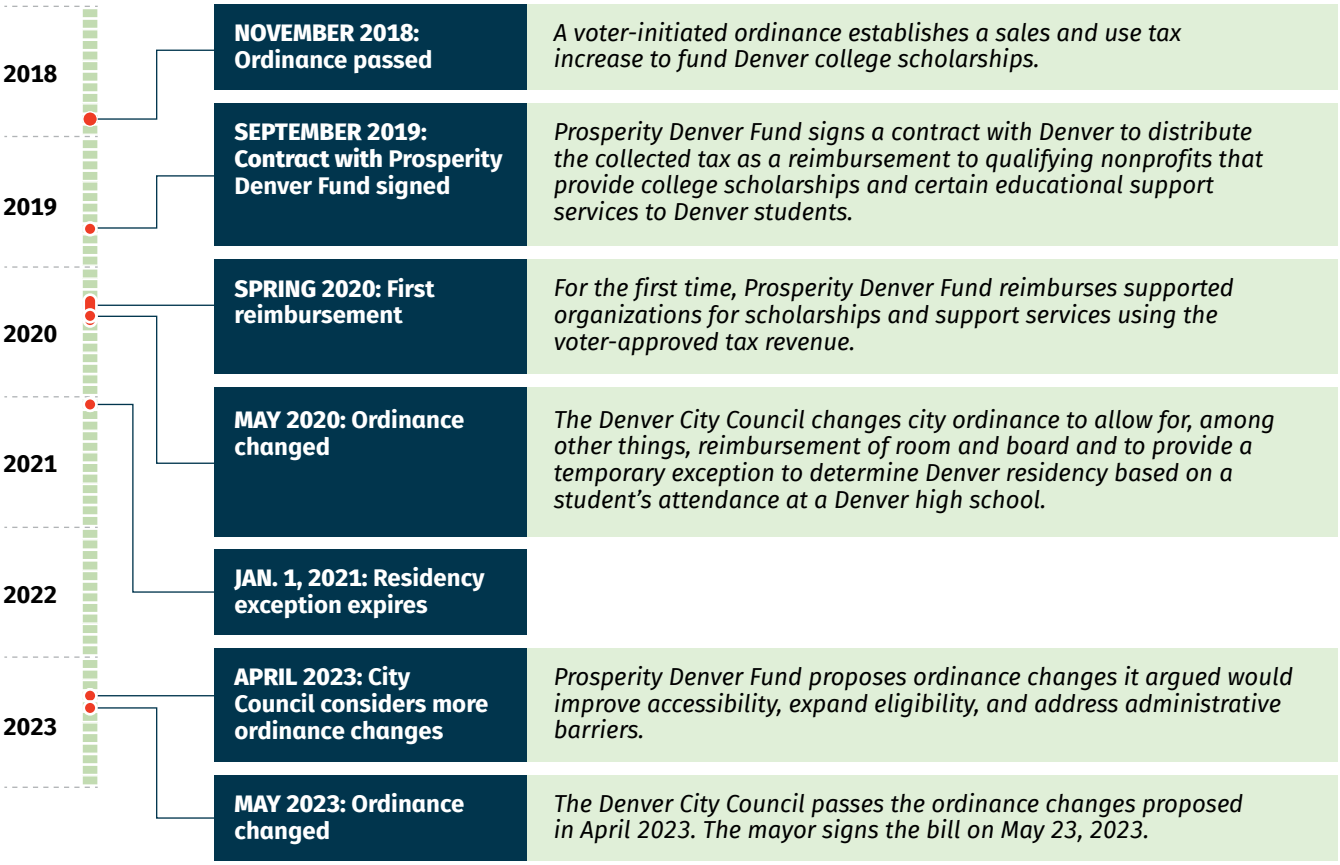
Since voters first approved the ordinance establishing the College Affordability Fund program five years ago, the law has undergone some changes. Figure 4 on the next page shows a timeline of key events related to the program and its city ordinance.

In May 2020, the Denver City Council amended the ordinance by:

- Allowing a temporary exemption to use high school attendance records, instead of a student's home address, to determine their residency.

- Expanding the definition of "tuition" to say "scholarship" instead, which includes tuition, room and board, and books.
- Allowing Prosperity Denver's board of directors to approve what qualifies as a "scholarship" or "support service."
- Allowing students to keep their eligibility if they temporarily leave Denver after graduating from high school.

FIGURE 4. Timeline for the Denver College Affordability Fund program



Source: *Auditor's Office illustration based on city ordinance and interviews with city staff and staff from Prosperity Denver Fund.*

Then in 2023, Prosperity Denver Fund proposed that the City Council make further substantial changes to the ordinance, including:

- Allowing the nonprofit to reimburse supported organizations for college or career counseling in high schools.
- Raising the maximum student eligibility age from 25 to 30.
- Changing the residency requirement to use either a student's high school graduation or their residence in Denver for six months before high school graduation.

- Covering — in addition to costs related to post-secondary institutions — certain high-quality nonprofit programs, apprenticeships, and teacher certification programs.
- Raising the cap on Prosperity Denver's administrative expenses from 5% of the designated tax revenue to 10%.

  The additional 5% is reserved for "computer-based data management and evaluation systems" to track student eligibility, scholarships, support services, and other elements of the program — with the goal to ultimately increase "the number of organizations and eligible students served."[24]

  By comparison, other recent voter-initiated programs — such as the Denver Preschool Program, Caring for Denver program, or the Parks Legacy Program — limit administrative expenses to less than 10%. For example, the preschool program limits administrative expenses to 7% of tax-revenue received, while both the Caring for Denver program and Parks Legacy Program limit it to 5%.

Prosperity Denver leaders said the most recent ordinance changes to the College Affordability Fund program were meant to improve accessibility, expand eligibility, and reduce administrative barriers to distribute funds to Denver residents. The City Council approved the ordinance changes on May 22, 2023.

This audit is based on the prior version of the ordinance in effect before that date.

[24] City and County of Denver, Council Bill No. 23-0428, accessed May 31, 2023, https://denver.legistar.com/LegislationDetail.aspx?ID=6167147&GUID=8F978E16-BD1E-49ED-BBED-2105F881BA63.

FINDING 1 AND RECOMMENDATIONS

Minimal oversight and insufficient data management practices do not ensure accurate and complete records for serving students

City officials designed the College Affordability Fund program so that the Office of Children's Affairs provides little oversight of the program and the city's contractor, Prosperity Denver Fund, because they said the agency has limited resources. Due to this program design, the city was unaware that Prosperity Denver — the entity responsible for managing the program — does not adequately collect data to ensure the city receives reliable reports about where the designated tax dollars are going and that reimbursements are for only eligible students.

Furthermore, Prosperity Denver was itself not fully aware of errors in some of its data. We found it has inadequate processes for managing data about the students being served. Therefore, it cannot ensure accurate and complete records for serving students — and it exposes itself to potential errors and fraud in distributing the city's designated tax dollars. Specifically, we found:

- Prosperity Denver's data for the reimbursements it provides supported organizations is fragmented and is missing data in key fields, which means the city cannot fully rely on Prosperity Denver's reports. We also learned no one is using data analytics to look for potential errors or fraud.
- Prosperity Denver did not assign unique identifiers to all students in its database, so neither we nor the Office of Children's Affairs can be certain how many students Prosperity Denver truly serves.
- Prosperity Denver reported incomplete information about the number of students being served, including information about their gender, ethnicity, and race.
- Prosperity Denver did not follow up on some potential issues regarding student eligibility related to known errors identified by its quality assurance program.

Because of these data management issues, we cannot confirm whether the aid supported organizations received from the city was for only eligible students — in line with city ordinance and the will of the voters.

The lack of oversight by the Office of Children's Affairs and the insufficient data management by Prosperity Denver risk noncompliance with the city ordinance governing the College Affordability Fund program. It also risks a lack of transparency and accountability with Denver voters who approved the designated tax revenue to be used for specific purposes — namely, to help households with lower incomes better afford the high cost of post-secondary education.

Prosperity Denver Fund's data for the reimbursements it provides supported organizations is fragmented and incomplete

Prosperity Denver Fund has no comprehensive database of its reimbursements for scholarships and related support services that would help it manage the program and better ensure data integrity and transparency to Denver residents.

Prosperity Denver requires supported organizations to submit their requests for reimbursement for each academic year using an Excel template. Each request from each supported organization typically contains information for multiple students. Prosperity Denver compiles these request files into a disbursement spreadsheet for a whole reimbursement period. Disbursements of funds to supported organizations generally occur twice a year as required by city ordinance, once in fall and once in spring.[25]

For example, Prosperity Denver created one disbursement spreadsheet in fall 2022 by combining individual reimbursement requests for the 2021-22 school year from all supported organizations. The supported organizations could have submitted additional requests, such as for additional eligible students, for the same academic year in spring 2023, and Prosperity Denver would compile these into a separate file for that reimbursement period.

Next, Prosperity Denver and its third-party consultant review the reimbursement requests in a reimbursement period. Prosperity Denver and its consultant check that information is entered in the spreadsheet for each of the five student eligibility categories: residency, financial need, attendance at a qualifying school, academic progress, and age — and that those entries indicate a student is eligible. They said they follow up with supported organizations if key data is missing or a student appears ineligible. For example, they said they would follow up if there is not enough home address history included to show the required three years of Denver residency.

After this review, Prosperity Denver Fund's board of directors approves the reimbursements, and funds are disbursed to the supported organizations. Neither Prosperity Denver nor its consultant collects or reviews any supporting documentation to validate the information provided in the reimbursement requests. Because Prosperity Denver and its board rely entirely on the Excel files when approving reimbursement requests, complete and accurate information is important.

To assess the reimbursements, we obtained 14 separate disbursement spreadsheets containing 7,814 reimbursement requests — including those approved, denied, and pending — that supported organizations had made for the 2018-19 school year through the 2021-22 school year, as of the fall 2022 reimbursement period.

[25] Denver Revised Municipal Code § 11-34(1) (2020).

Given that Prosperity Denver's data was fragmented, we merged this data ourselves to create a comprehensive database. Of these 7,814 requests, 7,570 — or 97% — were marked as approved for payment to the requesting supported organizations. This high approval rate did not appear unusual because the supported organizations are expected to determine student eligibility before submitting their request for reimbursement.

However, combining the spreadsheets in a single database revealed various issues with data quality. For example, we discovered that some of the 7,814 reimbursement requests across the 14 spreadsheets were for the same period, the same student, and the same supported organization.

Combining Prosperity Denver's 14 spreadsheets into a single database revealed various issues with data quality.

One spreadsheet had information on a scholarship reimbursement, while another had information on a reimbursement for support services. In some cases, the second spreadsheet included both the scholarship reimbursement and the support services reimbursement, thus counting the scholarship reimbursement twice.

When we told Prosperity Denver of our concerns about the potential duplicates we uncovered, staff explained this was due to supported organizations providing the reimbursement requests for support services later than their requests for scholarships. Scholarship amounts were necessary to calculate the limits for allowable support services amounts in those cases, but they said the scholarship reimbursement was paid only once. They also provided us with an adjusted number of approved reimbursements: 7,523, down from the original 7,570.

Another significant issue was that several key fields in the spreadsheets were missing information necessary for Prosperity Denver to confirm student eligibility, as part of its process.

Neither Prosperity Denver nor its consultant was concerned, because staff told us they worked diligently to follow up in all cases where data was missing. They said they had documented discussions via email or on the phone with the supported organizations in response to missing or potentially incorrect data in the reimbursement requests.

MORE INFORMATION

See Appendix A for more details about our sampling methodology and data analysis.

However, they could not provide us with the spreadsheet they used to track these communications because they said it was accidentally deleted. They provided a few examples of relevant emails with supported organizations evidencing questions and answers to clarify information in the spreadsheets. Nonetheless, we cannot confirm that Prosperity Denver Fund's or its consultant's staff always communicated with the supported organizations to clarify whether the students with missing or potentially incorrect data truly did meet requirements.

As discussed in the background, the voter-initiated ordinance for the College Affordability Fund program contains specific requirements for

We found several gaps in the data when we sought to assess whether there was sufficient information to determine eligibility.

what makes a student eligible for reimbursement.[26] In analyzing the reimbursement requests, we first assessed whether there was sufficient information in the data to determine eligibility based on each of the legal requirements. Our analysis in this finding relates to data issues, while Finding 2 discusses our analysis related to eligibility.

We used city ordinance language as it existed in 2022 and early 2023. Therefore, this audit is based on the prior version of the ordinance in effect before new ordinance changes passed in May 2023.

- **RESIDENCY** – In our analysis of the 14 disbursement spreadsheets, we found 155 entries out of the 7,814 reimbursement requests, or 2%, did not have sufficient information for Prosperity Denver to have verified whether a student was eligible to receive the college affordability funds based on where they lived. The amount of money associated with these reimbursements was $543,755 out of the $20.9 million disbursed, or about 2.6%.

  Prosperity Denver's consultant reviewed the 155 requests and provided explanations. For some of these students, staff at Prosperity Denver Fund said the supported organizations had assured them each student had met the residency requirement by attesting this fact in the reimbursement request.

  This was allowed as a temporary exception instead of reporting the actual address in the reimbursement request, because supported organizations had not initially collected some of the data required for Prosperity Denver's reimbursements given that this program was so new and they could not anticipate what would be required to collect.

  Once a student is approved as eligible, Prosperity Denver does not request any eligibility information regarding age, residency, and financial need in subsequent years. Therefore, these students also qualified for future periods. In addition, some organizations had not provided the end date for residency if a student still resided at the address filled in for the beginning date. Prosperity Denver and its consultant said they followed up with them and confirmed a three-year residency for these requests.

- **FINANCIAL NEED** – We also found some instances where data was insufficient to verify that students had met the required measure of financial need.

  Sixty out of the 7,814 reimbursement requests in Prosperity Denver's spreadsheets, or 0.77%, were approved but did not include enough information to verify eligibility. These requests included entries such as "unable to provide expected family contribution," "alternate measure used," or "[expected financial contribution] less than 250% of Pell grant limit," as well as blank fields — none of which was an approved measure of financial need listed in the reimbursement policy.

[26] Denver Revised Municipal Code § 11-33 (2020).

Although the information was missing, Prosperity Denver's consultant told us it verified that 38 of these requests marked "unable to provide expected family contribution" were nonetheless eligible. Staff said supported organizations used this code in the early years when they had not collected the expected family contribution rate but knew the students' financial need was below the threshold. Prosperity Denver's consultant also said Prosperity Denver's board had authorized the deviations from the policy and approved all of these reimbursements.

Prosperity Denver and its consultant said they called and emailed to verify the students associated with the remaining reimbursements. Therefore, Prosperity Denver and its consultant asserted that none of these were ineligible.

- **ATTENDANCE AT A QUALIFYING SCHOOL** – There were no missing entries in this field. However, we found an instance where Prosperity Denver staff were unaware they had treated two similar reimbursements differently. This happened because they did not have a single database nor a process to analyze the fragmented data holistically.

  We identified one student who was enrolled in an eligible school and an ineligible school during the same school year. Prosperity Denver denied this reimbursement request. Meanwhile, in a separate but similar case, Prosperity Denver reimbursed a student's supported organization for 50% of the student's scholarship — that is, for attending only the eligible school.

  Prosperity Denver staff said they had a policy — approved in 2022 — outlining how to handle such scenarios, which is why the second case was approved.

- **ACADEMIC PROGRESS** – Three cases out of the 7,814 reimbursement requests, or 0.04%, were approved while not having the required information from the supported organization to verify the students had met the level for acceptable academic progress. This corresponds to $9,522 in reimbursements.

  Prosperity Denver and its consultant said they confirmed the students' satisfactory academic progress in follow-up conversations with supported organizations and marked the students as eligible in a different column of the disbursement spreadsheet.

- **AGE** – We also discovered 3,424 requests lacked information required to recalculate age. This issue affected 45% of the 7,570 approved reimbursement requests since the 2018-19 school year.

  Prosperity Denver and its consultant said the Denver Scholarship Foundation — the largest of the supported organizations, by far — did not disclose complete dates of birth for students until the 2020-21 school year due to privacy protections. This then prevented Prosperity Denver from being able to thoroughly verify whether the students were no older than 25, as required in city ordinance.

Instead of using a student's date of birth, staff said they subtracted the student's age listed in the data by the date of May 1 for each year. For example, if a student in the 2018-19 school year was marked as being 20 years old and there was no birth date included, Prosperity Denver's consultant assigned a date of birth as May 1, 1999, which is 20 years subtracted from May 1, 2019. Using this calculation, all students qualified.

Based on our analysis of our entire combined database, we cannot say whether some of these students were ineligible. Rather, we can only say there was incomplete data in Prosperity Denver's spreadsheets to determine eligibility when processing these past requests, and there is no documentation affirming whether the required data was obtained. Our analysis did identify a few requests related to ineligible students, and we discuss those instances in Finding 2.

Without its own complete database, Prosperity Denver Fund cannot analyze its data to ensure accuracy and completeness — or monitor for indicators of potential errors or fraud.

The Association of Certified Fraud Examiners says, "The use of data analytics is a powerful fraud prevention, detection and investigation tool, and an important part of an effective and holistic fraud risk management program."[27] Related to college financial aid programs, access to students' personal information presents a risk in that the information can be used to commit fraud without an applicant's knowledge.[28]

We learned that, when Prosperity Denver Fund was created, the organization was careful to control its spending and ensure administrative expenses remained within the 5% limit voters had set. Therefore, when Prosperity Denver Fund started operations, staff opted to manage the College Affordability Fund program with Excel spreadsheets and not invest in additional technology until the needs were clearer.

Prosperity Denver staff told us they were aware of the data management issues based on quality assurance program reports and other observations. In response, the organization said it is creating a centralized database and automating how Prosperity Denver collects, verifies, manages, and reports student data. As of June 2023, the database was expected to be finalized in September 2023 and Prosperity Denver planned to use it to process the fall 2023 distribution.

But because Prosperity Denver has not ensured it documents complete, accurate details on students' eligibility, it limits accountability. Accurate reporting to the city and the public, in line with city ordinance, is

[27] Association of Certified Fraud Examiners, "Anti-Fraud Data Analytics Tests," Fraud Risk Management Guide, Second Edition, accessed June 2, 2023, https://www.acfe.com/fraud-resources/fraud-risk-tools---coso/anti-fraud-data-analytics-tests.

[28] Jeremy Green and James Densley, "Pell Grant Fraud Awareness: White-Collar Crime Challenges," FBI Law Enforcement Bulletin, Feb. 2, 2014, accessed Jan. 4, 2023, https://leb.fbi.gov/articles/featured-articles/pell-grant-fraud-awareness-white-collar-crime-challenges.

imperative to ensure the city's College Affordability Fund program meets its objectives and respects the intent of the voters.

Prosperity Denver Fund did not assign unique identifiers to each student

City ordinance requires Prosperity Denver to provide accurate reports including:

- The number of students receiving assistance from Prosperity Denver.
- Metrics tracking graduation rates, academic progress, and lost eligibility.[29]

But, in addition to maintaining fragmented data, Prosperity Denver has not assigned unique identifiers to each student. Without those, neither Prosperity Denver nor the Office of Children's Affairs can accurately know how many students are benefiting from the city's College Affordability Fund program. Some supported organizations provided several kinds of identifiers, but because they are not consistent and not for all students, these identifiers cannot be used for data analytics across all years and for all reimbursements.

We found through our analysis how difficult it is to identify duplicate students in Prosperity Denver's data. Using only a student's name to identify them creates a risk because some students may have the same name or a name that is similar.

In analyzing the 7,814 reimbursement requests since the 2018-19 school year, we identified at least one confirmed set of duplicate requests that were approved. The students had the same first and last name but the entry for their birth date did not match by one day. The duplicate amount paid was for $4,119.

Without unique identifiers, it is difficult to determine the exact number of students Prosperity Denver — and therefore, the city — serve through the College Affordability Fund program.

This type of inconsistency can inflate the count of students served. For example, spelling errors or entries with and without a middle name can cause the total number of students in the data to be unintentionally exaggerated.

Furthermore, if different students have the same first and last names but no record of a middle name, they may be mistakenly identified as the same person.

The number of students served cannot be accurately counted without establishing a full database of reimbursements, especially given that:

- Many students receive scholarships over several school years.
- They can receive aid from more than one supported organization.
- Unique identifiers for students are sometimes missing or inconsistent.

[29] Denver Revised Municipal Code § 11-31(5)(i)-(ii) (2020).

Therefore, it is difficult to determine the exact number of students Prosperity Denver — and the city — serve through the College Affordability Fund program.

Prosperity Denver Fund's reporting about the students served is incomplete

Prosperity Denver does not have a way to collect full information about the gender, ethnicity, and race of students served. It is also not accurately tracking and reporting on the overall number of students served.

Prosperity Denver staff said that, although some supported organizations collect demographic information from some of their students, they do not have details on all students because some data fields — such as ethnicity and race — are optional on student applications.

Nonetheless, Prosperity Denver has reported students' demographic information as part of its performance metrics to the city. We learned this information is incomplete and may not accurately represent the students being served specifically by the city's College Affordability Fund program.

Instead of reflecting the makeup of all students being reimbursed by Prosperity Denver, the demographic information Prosperity Denver has reported is based only on students served by the Denver Scholarship Foundation, its largest supported organization. In addition, the data is not limited to only those students this organization is receiving reimbursements for — rather, it reflects all of the Denver Scholarship Foundation's students.

For example: Prosperity Denver's annual work plan from May 2022 reported that 63% of students receiving the city's college affordability funds were of Hispanic or Latino heritage, 15% were Black, and 66% were female. However, due to the unrepresentative source of the data, we can have no confidence these percentages accurately reflect all students Prosperity Denver serves across all supported organizations.

We found that Prosperity Denver has also conflated the number of students served with the number of reimbursements it gives each school year. As we mentioned in the background: Nothing restricts an eligible student to receiving only one tax-funded scholarship or support service during a school year. For example, if a student received a scholarship from several supported organizations or in several school years, they would have multiple reimbursements tied to their name.

By counting each reimbursement as a student, Prosperity Denver incidentally counted the same students several times in its performance metrics. This resulted in Prosperity Denver reporting higher numbers of students served.

For example, in its May 2022 annual work plan, it showed the number of students served in the 2020-21 school year as 1,844. However, the reimbursement spreadsheets provided by Prosperity Denver showed this

was the number of reimbursements.

We could not count the number of students served in any school year or for all the school years in our scope because of some inconsistent or missing unique identifiers. Counting only by the first and last name could result in some students counted more than once and also two different students counted as one.

Given these data gaps and reporting issues, Prosperity Denver cannot accurately and transparently report the impacts of its work to the city, to Denver taxpayers, or to other stakeholders. Furthermore, although it was the city agency responsible for overseeing Prosperity Denver's contract, the Office of Children's Affairs did not have processes to ensure the data was accurate and reliable.

Prosperity Denver Fund did not follow up on potential additional issues related to its consultant's quality assurance findings

During our audit, we discovered Prosperity Denver Fund had tasked its consultant with conducting two reviews in 2022 as an effort to pilot a quality assurance program.

Before then, the North Side High School Alumni Association Scholarship Foundation had initiated its own internal review when the foundation noticed the reimbursement for its 2020-21 school year was higher than expected. The organization had accidentally requested a reimbursement for all students who received its scholarships that year instead of just those who qualified. Additionally, the alumni foundation was relying on the Denver Scholarship Foundation's determination of eligibility, and that also proved to have errors.

After learning about the potential overpayment, Prosperity Denver selected this supported organization in addition to the Denver Scholarship Foundation — the largest recipient of reimbursements — to look at a specific school year for each and assess student eligibility for reimbursements of scholarships and support activities for a selection of students.

Each of the quality assurance reviews disclosed significant overpayments and errors and included recommendations for how Prosperity Denver could improve its operations.

DENVER SCHOLARSHIP FOUNDATION QUALITY ASSURANCE REVIEW – In August 2022, the quality assurance review found Prosperity Denver Fund had overpaid the Denver Scholarship Foundation by $202,565 for the 2019-20 school year due to identified errors in reimbursement requests for 93 students. The errors were due to accidentally using the wrong school year for satisfactory academic progress. The Denver Scholarship Foundation committed to:

- Making clear notes on the reimbursement request template to explain specific time frames and data sources.

- Developing an audit checklist that would prompt reviewers to check each entry by comparing it with the original source data.

Meanwhile, Prosperity Denver Fund received recommendations to:

- Develop a payment resolution policy for future overpayments or underpayments.
- Assign unique identifiers to each student.
- Enhance its own data to allow for reimbursement calculations and reporting.

NORTH SIDE HIGH SCHOOL ALUMNI ASSOCIATION SCHOLARSHIP FOUNDATION QUALITY ASSURANCE REVIEW – In September 2022, the quality assurance review found significant errors with student eligibility due to incorrect or unconfirmed information in nearly every eligibility category, which resulted in Prosperity Denver overpaying the alumni foundation by $61,783 for the 2020-21 school year. The quality assurance report said the supported organization identified the following ways to improve:

- Verify student eligibility more often.
- Review the student application and acceptance processes to ensure data required by Prosperity Denver is collected and tracked.
- Verify student eligibility internally, rather than relying on another supported organization as in prior years.

Further, the report discussed how Prosperity Denver should consider strategies to better guide supported organizations. For example, Prosperity Denver provided a "helpful hints" document to supported organizations to help them prepare reimbursement requests, but the document covered only three of the five required qualifications.

The quality assurance reports further show how Prosperity Denver needs to provide more guidance and clarity on required documentation, including what constitutes sufficient evidence.

Overall, the quality assurance report described potential improvements in three areas: training, technology, and process design. This included questions regarding obtaining eligibility evidence from supported organizations, sharing some of the responsibility for collecting supporting documentation, reducing manual processes, developing a centralized database, and changing policies to improve accuracy and compliance.

We did receive evidence showing the North Side alumni foundation and the Denver Scholarship Foundation promptly refunded the overpayments to Prosperity Denver. Nonetheless, the findings in these two quality assurance reports revealed a variety of potential improvements, most of them consistent with the findings and recommendations in our audit.

During our audit, we asked Prosperity Denver how it was addressing the problems the quality assurance review had identified. Prosperity Denver staff again said they were developing a database to allow for automation and validated data entry — which they said should improve efficiency and reduce the likelihood of human error. Prosperity Denver staff also said their database would have the flexibility and capacity to store supporting documentation.

However, as of mid-May 2023, Prosperity Denver had not adequately addressed other potential errors related to the findings from these quality assurance reports. Using the review's findings, we identified the students with known eligibility issues and analyzed other approved reimbursements in all other supported organizations and all school years associated with those same students.[30]

For example, we found Prosperity Denver had given $126,655 to other supported organizations for the students that the quality assurance report for North Side High School Alumni Association Scholarship Foundation identified as ineligible. This is the maximum amount of additional reimbursements that could have been given for ineligible students.

But there could be many reasons why the actual overpayment is much smaller. For example, some of these students failed to meet the requirement for satisfactory academic progress. It is possible some students failed the satisfactory academic progress requirement only once but were qualified in other years. In other cases, the students were found ineligible only because the North Side alumni foundation did not give a scholarship to these students in this school year, so they could not ask for reimbursement from Prosperity Denver. Otherwise, they were found to be eligible. Therefore, they could have received a scholarship from another supported organization in the same period, and they would have qualified for reimbursement.

At a minimum, Prosperity Denver Fund should have checked other reimbursement requests related to the students found ineligible.

The lack of oversight and the absence of a data management plan contributed to Prosperity Denver Fund's data issues

Prosperity Denver Fund has no formal plan to collect or manage data for the city's College Affordability Fund program. When we asked whether Prosperity Denver had any documentation on how it had or will be managing data, staff referred us to their procedures about using Dropbox to share reimbursement requests and other sensitive information with supported organizations. They also noted their records retention policy. They said they are not documenting any other data management procedures until the comprehensive database is created and the whole reimbursement process is revamped.

Another significant cause behind Prosperity Denver's current data issues is a lack of oversight — both by the organization itself and by the Office of Children's Affairs.

[30] We matched these students by their Denver Public Schools identifications numbers for this analysis. It is possible there were other reimbursements for the same students, but the data did not include their identification numbers. The absence of consistent student identification numbers in the data is one of the data analysis limitations.

Prosperity Denver Fund should have checked other reimbursement requests related to the students found ineligible.

Federal guidance says it is important for managers to use reliable and accurate information to achieve the organization's goals.[31] Without a data management plan, Prosperity Denver cannot ensure it is following leading practices for collecting and processing high-quality data, such as:

- Continuously identifying information requirements.
- Obtaining data from reliable sources — those that provide data with minimal errors and biases — in a timely manner and assessing data sources for reliability.
- Processing the data to produce high-quality information that is appropriate, current, complete, accurate, accessible, and timely.[32]

Federal guidance also says managers should use such information to make informed decisions and assess performance and risks.[33]

Because Children's Affairs is responsible for overseeing the program and managing the contract between the city and Prosperity Denver Fund, it is duty-bound to provide a level of adequate oversight. This includes reviewing Prosperity Denver's data management practices and helping to ensure data is properly collected, stored, analyzed, and reported.

But based on how city ordinance delegates administration of the college affordability program to Prosperity Denver Fund, the Office of Children's Affairs provides minimal oversight. While the agency is still responsible for managing the contract with Prosperity Denver, its regular involvement is limited to attending monthly calls with the nonprofit's staff and attending its board of directors' meetings every two months.

For example, we learned the Office of Children's Affairs raised no concerns about the quality assurance reports because they were satisfied with the verbal updates from Prosperity Denver's managers during the regular monthly meetings as well as their proposed solution of a comprehensive database to address issues uncovered by the reports going forward. However, staff in the Office of Children's Affairs did not receive the quality assurance reports as part of the board of directors' meeting packet.

The city's Executive Order No. 8 says contracts are one of the city's highest priorities. Each agency under the mayor — including the Office of Children's Affairs — is required to ensure contract compliance throughout the life of a contract. Certain tasks need to be taken care of by the agency responsible for managing the contract. For instance, the agency must:

- Establish and implement policies and procedures to monitor contracts, including assigning specific staff responsible for monitoring the contracts.
- Consistently monitor contractors' performance to make sure they are

[31] U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014), accessed Feb. 7, 2023, https://www.gao.gov/assets/gao-14-704g.pdf, para. 13.01.

[32] U.S. Government Accountability Office, "Standards for Internal Control in the Federal Government," paras. 13.03 and 13.04.

[33] U.S. Government Accountability Office, "Standards for Internal Control in the Federal Government," para. 13.05.

meeting the requirements and delivering as expected.[34]

As of 2022, the contract administrator for the Office of Children's Affairs was managing about 112 contracts.

The Office of Children's Affairs gave us the contract administration plan it has for Prosperity Denver Fund. The plan includes a requirement to check that no more than 5% of the tax distributions received by Prosperity Denver from the city are spent on administrative funds, although it is unclear who is responsible for this task. The only other contract monitoring required is the review of reports, as mentioned previously.

Children's Affairs officials said the agency is understaffed. Children's Affairs does not have a dedicated employee to manage or monitor the city's contract with Prosperity Denver. This responsibility is shared among several employees. In addition, as of 2022, the agency's contract administrator was managing about 112 contracts overall.

Federal standards say internal controls are a key foundation to effective governance. They are safeguards — created and documented in policies, procedures, and other tools — that help ensure the accuracy of information, promote accountability, prevent fraud, and improve efficiency of operations. Managers should implement internal controls through documented policies and procedures and managers should also monitor those controls to ensure they work as intended.[35]

Both Children's Affairs and Prosperity Denver lack sufficient controls to ensure adequate oversight and data management for the College Affordability Fund program.

Because of that, the Office of Children's Affairs has not effectively supervised Prosperity Denver Fund to ensure the nonprofit collects and uses accurate and complete data for serving students and for reporting on the results of the program. City leaders and residents cannot make fully informed decisions about the program if they do not have accurate, reliable data on how the program is doing and where city tax dollars are going.

1.1 RECOMMENDATION Provide greater oversight

The Office of Children's Affairs should update its contract administration plan to increase its supervision of Prosperity Denver Fund. At a minimum, the updated plan should include proper safeguards to ensure Prosperity Denver's reimbursement and reporting processes are accurate so that the city receives a true picture of the program's performance, including who it is serving.

AGENCY RESPONSE – AGREE, IMPLEMENTATION DATE – DEC. 31, 2023
SEE PAGE 50 TO READ THE AGENCY'S RESPONSES.

[34] Exec. Order No. 8, City and County of Denver (2011), accessed May 31, 2023, https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/8-Contracts-Other-Written-Instruments-CCD.pdf.

[35] U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014), accessed Feb. 7, 2023, https://www.gao.gov/assets/gao-14-704g.pdf., para. 16.01.

1.2 RECOMMENDATION Create data management plan

The Office of Children's Affairs should ensure Prosperity Denver Fund establishes and adheres to a comprehensive data management plan. This plan should clearly define the roles and responsibilities of all parties involved in the Denver College Affordability Fund program to ensure the data is complete and accurate. At a minimum, the plan should require the use of unique identifiers for students served and require that staff document any changes or additional information they use to supplement a reimbursement request. This plan should also include a requirement for a centralized database and regular data analyses to detect indicators of potential errors or fraud, such as missing essential fields and duplicate entries.

AGENCY RESPONSE – AGREE, IMPLEMENTATION DATE – JUNE 30, 2024
SEE PAGE 50 TO READ THE AGENCY'S RESPONSES.

1.3 RECOMMENDATION Follow up on quality assurance findings

Prosperity Denver Fund should work with the Office of Children's Affairs to address additional potential errors for items highlighted in the quality assurance reports, such as reimbursements for students who did not qualify but for whom Prosperity Denver reimbursed other supported organizations. In addition, Prosperity Denver and the associated supported organizations should continue implementing the recommendations from those reports.

AGENCY RESPONSE – AGREE, IMPLEMENTATION DATE – DEC. 31, 2023
SEE PAGE 50 TO READ THE AGENCY'S RESPONSES.

FINDING 2 AND RECOMMENDATIONS

Prosperity Denver Fund and some supported organizations have not adequately verified eligibility for some students

Federal standards say an oversight body is responsible for supervising a program's system of internal controls — the policies, procedures, and processes that ensure a program operates as intended. Additionally, the oversight body should oversee operations and provide constructive feedback to managers. It should also lay out processes to meet the requirements of applicable laws, regulations, and government guidance.[36]

But Prosperity Denver Fund — the city's third-party contractor in charge of administering the Denver College Affordability Fund — largely relies on its 35 supported organizations to establish and verify whether students meet the eligibility requirements of city ordinance.

Prosperity Denver designed a process where it reviews reimbursement requests from the supported organizations without confirming that information with any source documentation. This allowed Prosperity Denver's staff to handle the workload within the limited administrative expenses allowed by city ordinance.

Prosperity Denver reviews reimbursement requests from the supported organizations without confirming that information with any source documentation.

But this process lacks adequate safeguards to ensure information is accurate and all evidence is maintained. We found some supported organizations themselves do not always collect source documentation nor do they always ensure it is reliable. Furthermore, we identified data-entry errors in their requests for reimbursement.

Prosperity Denver has not established specific requirements for what documentation the supported organizations should obtain and keep, and some supported organizations themselves have no adequate controls to ensure all information is accurate and all evidence is maintained. This exposes the city to errors and potential fraud.

Meanwhile, as discussed in Finding 1, the city's Office of Children's Affairs — which is responsible for the city's contract with Prosperity Denver Fund — only minimally monitors Prosperity Denver Fund.

At the time of our audit fieldwork, city ordinance required that the tax revenue collected for the college affordability program benefit only eligible students who satisfy requirements based on their:

- Residency.
- Financial need.
- Attendance at a qualifying post-secondary institution.

[36] U.S. Government Accountability Office, GAO-21-368G, "Government Auditing Standards" (2021), accessed May 25, 2023, https://www.gao.gov/assets/gao-21-368g.pdf, para. 2.02.

- Academic progress.
- Age.[37]

After we determined whether Prosperity Denver maintained sufficient, accurate data, as we discussed in Finding 1, we sought to delve deeper and verify whether Prosperity Denver and the supported organizations were thoroughly verifying students' eligibility since the inception of the program in the 2018-19 school year through the 2021-22 school year.[38] Specifically, we looked at whether the supported organizations obtained and kept supporting documentation and accurately filled out the reimbursement requests.

Out of the roughly 7,500 reimbursements approved in that time, we chose to sample 60 random requests across four of the supported organizations responsible for the most requests. These were associated with $166,000 in reimbursements.

As shown in Table 1, this population represented 7,051 approved requests initially among the Denver Scholarship Foundation, the Latin American Educational Foundation, the Sachs Foundation, and the North Side High School Alumni Association Scholarship Foundation — which are the four organizations we used for our audit analysis.

TABLE 1. Top five supported organizations reimbursed by Prosperity Denver Fund, school years 2018-19 through 2021-22

Rank	Name of supported organization	Number of scholarships reimbursed	Amount of scholarship money reimbursed	Amount of money reimbursed for support services	Total amount of tax-funded reimbursement
1	Denver Scholarship Foundation	6,634	$13,271,292	$4,852,474	$18,123,766
2	Latin American Educational Foundation	129	$175,910	$91,695	$267,606
3	Sachs Foundation	111	$526,145	$0	$526,145
4	Harry L. and Eva J. Puksta Foundation	91	$349,475	$146,992	$496,467
5	North Side High School Alumni Association Scholarship Foundation	86	$71,591	$48,088	$119,679
TOTAL		**7,051**	**$14,394,413**	**$5,139,249**	**$19,533,663**

Note: *The data is ranked by the number of scholarships reimbursed and includes all approved reimbursements through the fall 2022 distribution. Full data for the 2021-22 school year was not available as of mid-May 2023. See Appendix C for a list of the top 15 supported organizations reimbursed by Prosperity Denver.*

Source: *Auditor's Office analysis based on data provided by Prosperity Denver Fund.*

[37] Denver Revised Municipal Code § 11-33 (2020).

[38] Reimbursements for the 2021-22 school year were paid out in fall 2022. As of mid-May 2023, the spring disbursement was not yet complete so school year data for 2021-22 was not yet finalized.

The Denver Scholarship Foundation alone had received nearly 87% of approved scholarship reimbursement amounts since the program began, making it the largest supported organization by far.

However, later in our audit and after we had completed our analysis, Prosperity Denver Fund provided us with revised data that revealed the Harry L. and Eva J. Puksta Foundation, and not the North Side alumni foundation, rounded out the top four. When Prosperity Denver staff provided us with the original 14 Excel files with the reimbursement amounts, they did not account for overpayments the North Side alumni foundation had returned to Prosperity Denver because of errors identified in its quality assurance report, which we discussed in Finding 1.

FURTHER ANALYSIS

- **See Finding 3, beginning on page 42, for a more detailed discussion of our sample results.**
- **See Appendix A for more details about how we analyzed the reimbursement amounts and eligibility requirements.**
- **See Appendix C for a list of the top 15 supported organizations reimbursed by Prosperity Denver since the 2018-19 school year.**

As shown in Figure 5 on the next page: In our sample of 60, some requests either did not meet eligibility requirements or there was inadequate documentation to support eligibility. Additionally, some requests that met requirements still had errors, which raised questions about data quality.

We used various forms of evidence to support information in the reimbursement requests, some of which we found to be more reliable than others. For instance, we received information from some supported organizations' internal databases as well as Denver Public School transcripts.

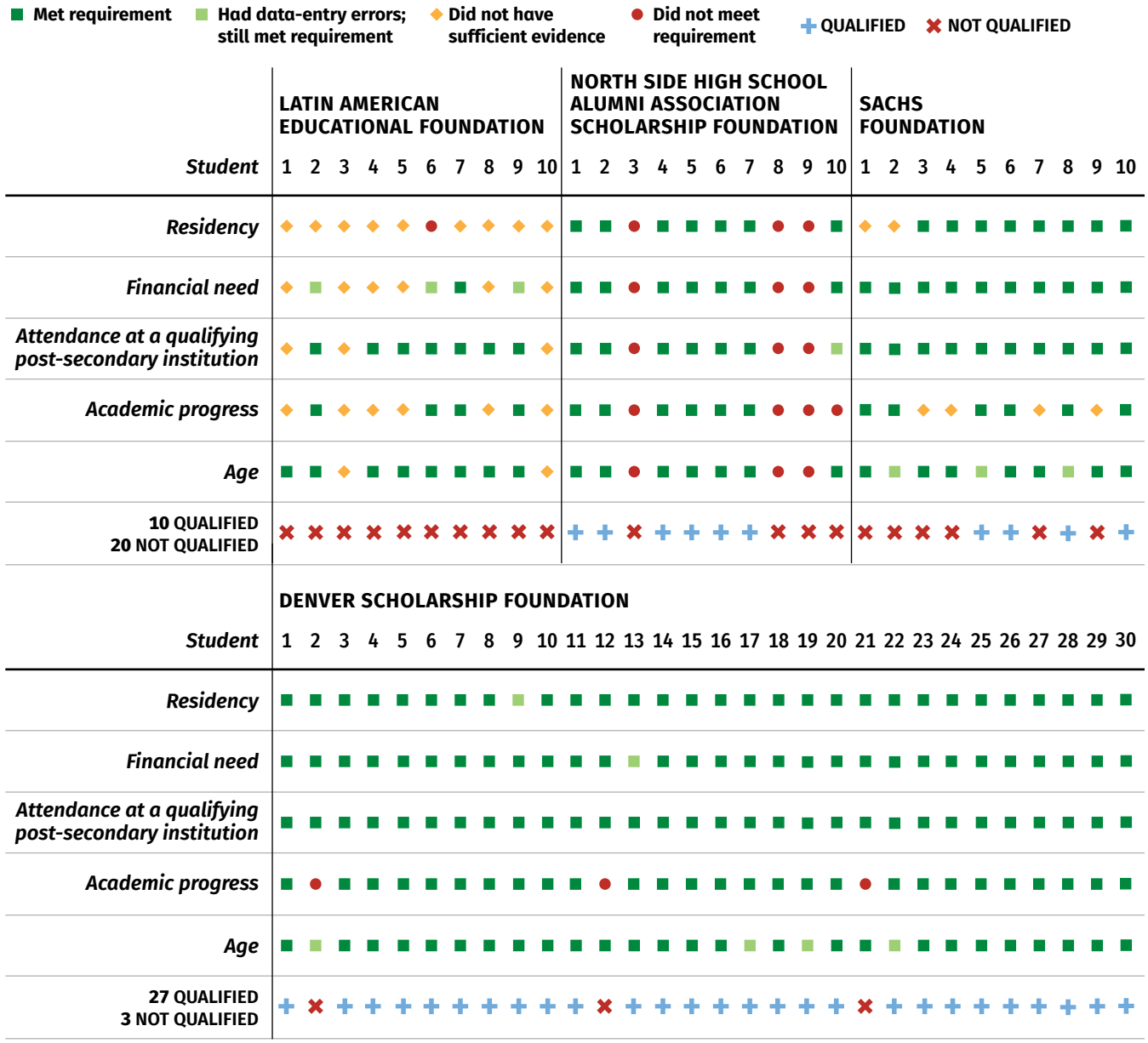
Although we considered information in the supported organizations' internal databases a form of evidence and did not mark students with this evidence as ineligible, we could not independently confirm information in the database was accurate and reliable.

Specifically, we found the Denver Scholarship Foundation allows post-secondary institutions to directly access its database and input students' information, such as their academic progress and financial need.

Foundation staff said they use this to process many scholarships efficiently, but they do not obtain or keep any documentation to support the information provided. Foundation staff said they believe the data related to academic progress and financial need entered into their internal database by a post-secondary institution's representative is reliable.

FIGURE 5. Summary of eligibility testing for a sample of reimbursement requests

We tested 60 reimbursement requests chosen randomly from four of the supported organizations that had the most approved reimbursement requests through the city's College Affordability Fund program: the Denver Scholarship Foundation, the Latin American Educational Foundation, the Sachs Foundation, and the North Side High School Alumni Association Scholarship Foundation.



Note: *No documentation was provided for five students. They are included in each category. The Latin American Educational Foundation did not provide the length of residency for its students. Therefore, all 10 of its sample items failed for residency.*

Source: *Auditor's Office illustration based on testing results.*

However, staff at the Denver Scholarship Foundation also have access to modify student information in their internal database. Without supporting documentation and adequate controls over data entry, anybody from the foundation or a person with system access at a post-secondary institution could change the information in the foundation's database, intentionally or unintentionally.

The Denver Scholarship Foundation said each scholarship reimbursement request is reviewed at the individual student level by at least three staff before submission. Although this review includes comparing information from the reimbursement request to the internal database, it does not include comparing between the database and supporting documentation. Therefore, this review does not fully mitigate the risk that eligibility information in the Denver Scholarship Foundation's internal database could be inappropriately edited.

Meanwhile, we considered third-party evidence — such as transcripts from the Denver Public Schools district — to be most reliable because it came from an outside entity that was neither a student nor an agency we were auditing. For example, we could prove residency based on high school attendance using transcripts from a student's high school or we could corroborate a self-reported address on the student's application with additional information such as an address on the student's high school transcript. In addition, Denver Public Schools obtains documentation for students' dates of birth and addresses, so the school district can provide reliable information about which high schools students attended, including their last day of school.

We will now discuss our analysis in more detail based on each eligibility requirement laid out in city ordinance, as it existed in 2022 and early 2023. That is, our audit is based on the prior version of the ordinance in effect before new ordinance changes passed in May 2023.

We discuss only some examples and not all instances where documentation provided was insufficient or showed that a student did not meet the requirement.

RESIDENCY – City ordinance required a student to have lived in Denver continuously for at least three years before their first scheduled class day at a post-secondary school.[39] This provision included an important caveat: Any student whose first day of post-secondary education was before Jan. 1, 2021, who attended a high school in Denver, and who met all other eligibility requirements was considered eligible for reimbursement.[40] The ordinance also said an otherwise eligible student would not lose eligibility due to a temporary absence from Denver after high school.

[39] The ordinance included a temporary exception that said a student was still eligible if their first scheduled post-secondary class day was before Jan. 1, 2021, and they attended their last three years of high school in Denver. If a student was temporarily absent from Denver after attending high school, they did not lose eligibility. Denver Revised Municipal Code § 11-33(a) (2020).

[40] Denver Revised Municipal Code § 11-33(a) (2020).

To supplement that ordinance language, Prosperity Denver developed several "helpful hints" documents that provided guidance and additional information to the supported organizations regarding the ordinance's eligibility requirements. However, for the residency requirement, Prosperity Denver did not specify what kind of evidence the organizations should obtain from students as proof of Denver residency. It only said Prosperity Denver allowed a signed statement from a student to count as evidence.

Prosperity Denver allows a signed statement from the student to count as evidence of their proof of Denver residency.

Out of our sample of 60 requests, all 10 students from the Latin American Educational Foundation failed the residency requirement because the organization did not provide the length of residency.

Among those 10, we identified one student who had neither lived in Denver County nor attended a Denver public school. Prosperity Denver Fund still reimbursed the Latin American Educational Foundation $2,227 for this student's scholarship and support services. In this case, the student's address listed in the reimbursement request said Denver, but this address is not within the Denver County limits based on the Denver assessor's records.

When we reviewed all 7,570 approved reimbursements since payouts for the College Affordability Fund program began for the 2018-19 school year, we found 155 requests — or about 2% — had insufficient data to determine eligibility based on residency. As described in Finding 1, Prosperity Denver's consultant reviewed this list and explained each situation. However, in one case, they confirmed that the student had only two years of high school attendance, which meant the student did not meet the residency requirement.

Staff from both Prosperity Denver Fund and the supported organizations acknowledged significant difficulties in establishing residency for students potentially eligible for program funds. The updates to city ordinance in May 2023 should make it easier for supported organizations to obtain evidence of residency.

CHANGES TO RESIDENCY REQUIREMENT

Collecting residency information and reliable supporting documentation has been a major challenge for supported organizations. The updates to city ordinance in May 2023 allow students to live in Denver for less time and again use their Denver high school attendance to prove residency. The changes should make compliance with this eligibility requirement significantly easier.

They cited impacts from the COVID-19 pandemic as well as housing challenges — such as students experiencing homelessness or displacement from Denver due to rising housing costs. Staff said some students either do not know all the addresses they lived at or that disclosing them may cause the student significant distress. In addition, they said it would be difficult to obtain verifiable evidence of a home address, such as with a utility bill, if a student moved around multiple times in a short period.

Housing challenges, such as homelessness or displacement, may make it difficult for a student to track all the addresses where they lived while in high school.

Because of these challenges, most supported organizations ask students to provide their address only on their scholarship application, which each student must then sign to attest the accuracy of the information provided.

Furthermore, although city ordinance required Denver residency for the three years before the student's first day of post-secondary education classes, we learned supported organizations typically used 36 months before graduation from high school to calculate the required period for this qualification. Because the ordinance allowed for temporary absences from Denver after graduation from high school, we did not consider this practice inconsistent with city ordinance, so we did not count this as an error in our analysis.

FINANCIAL NEED – City ordinance limits the scholarships and support services to students whose families have lower incomes. It requires a student to show financial need, such as by filling out a Free Application for Federal Student Aid, or FAFSA; Colorado Application for State Financial Aid; or a similar measure of financial need as determined by Prosperity Denver.[41] To implement this requirement, Prosperity Denver Fund has a policy describing other measures of financial need as well as the sliding scale it uses for reimbursements as required by the ordinance.

For instance, for a supported organization to receive a 70% reimbursement for the scholarship and support service it provided a student, the student must have had a maximum expected family contribution of between 200% and 250% of the eligibility threshold for a federal Pell Grant. If the student's maximum expected family contribution was under 200% of the Pell Grant threshold, if they received free or reduced-price lunch, or if they were eligible for other public assistance, then the supported organization could receive a full 75% reimbursement from Prosperity Denver Fund.[42]

For context, Table 2 on the next page shows the amounts for a student's estimated family contribution to qualify for Prosperity Denver's reimbursement in a given school year.

In its "helpful hints" to the supported organizations, Prosperity Denver detailed the financial need requirements, including what level of reimbursement a student's estimated family contribution would qualify for in each school year. The guidance document included a table showing the expected family contribution range limits for school years through 2021-22 — which we confirmed by independently recalculating the Pell Grant limits and ensuring the amounts in Prosperity Denver's table matched the Pell Grant limits on the federal government's website.[43]

[41] Denver Revised Municipal Code § 11-33(b) (2020).

[42] For the 2018-19 school year, Prosperity Denver Fund's policy allowed for only a 75% reimbursement and the only criteria was if a student had an expected family contribution of no more than 250% of the eligibility threshold for a Pell Grant.

[43] Federal Student Aid, U.S. Department of Education, "Operational Implementation Guidance" for Federal Pell Grant Payment and Disbursement Schedules (2018-2023), accessed May 13, 2023, https://fsapartners.ed.gov.

TABLE 2. Estimated family contribution limits for reimbursements, by school year

	2018-19	2019-20	2020-21	2021-22	2022-23
Maximum expected family contribution for a Pell Grant	$5,486	$5,576	$5,711	$5,846	$6,206
200% of maximum expected family contribution	$10,972	$11,152	$11,422	$11,692	$12,412
250% of maximum expected family contribution	$13,715	$13,940	$14,278	$14,615	$15,515

Source: *Auditor's Office illustration based on analysis of federal Pell Grant guidelines.*

To test whether the 60 requests in our sample satisfied the financial need requirements, we requested supporting documentation from the supported organizations. We looked at the expected family contribution amount in the student's FAFSA or their Colorado Application for State Financial Aid, their scholarship applications, and screenshots from the supported organizations' internal databases.

In one case, we found Prosperity Denver reimbursed the Denver Scholarship Foundation for the full 75% of a student's scholarship in 2020-21 even though its policy allowed for only a 70% reimbursement. We found this resulted from a data-entry error, in which the supported organization incorrectly reported the student to be under the 200% threshold for their estimated family contribution. Therefore, Prosperity Denver overpaid the Denver Scholarship Foundation by $132 for this student.

Because Prosperity Denver does not confirm the data in reimbursement requests with source documentation, it had no way to know when it used an inaccurate reimbursement rate.

Conversely, the Latin American Educational Foundation marked three students with expected family contributions below 200% as exceeding the 200% thresholds, so the organization was reimbursed at 70% instead of 75%. This resulted in a $448 underpayment to the supported organization. Although the reimbursement rate was incorrect, the students still qualified.

The Latin American Educational Foundation had no support for financial need for six students, and the North Side High School Alumni Association Scholarship Foundation did not provide the information for three students.

Because Prosperity Denver's process does not require it to confirm the data in a reimbursement request with source documentation, it had no way to know the errors existed.

In addition, as part of our data analysis, we reviewed all 7,570 approved reimbursement requests for compliance with the financial need requirement and found no ineligible students based solely on the data in the reimbursement requests.

Staff at some supported organizations said it was difficult for them to obtain reliable evidence of students' financial need from post-secondary institutions because of data privacy concerns. Those staff said they also sometimes must contact students multiple times to obtain information in

years after a scholarship was paid.

ATTENDANCE AT A QUALIFYING POST-SECONDARY INSTITUTION AND ACADEMIC PROGRESS – City ordinance requires eligible students to attend a "nationally or regionally accredited non-profit or public post-secondary institution" in Colorado and also be "certified in good standing at said institution," which means achieving "satisfactory academic progress."[44]

For the 60 requests in our sample, we reviewed documentation from each supported organization including screenshots from their internal databases, transcripts from students' post-secondary institutions, and confirmation of the students' graduation using the National Student Clearinghouse.

We found many issues of eligibility in our sample related to the required satisfactory academic progress.

As noted in Finding 1 starting on page 21, Prosperity Denver had a quality assurance report for the Denver Scholarship Foundation in 2022. Our sample included two students from these reports who did not meet satisfactory academic progress but whose supported organizations were still reimbursed. This happened because the Denver Scholarship Foundation had accidentally used the wrong school year for this requirement. The Denver Scholarship Foundation refunded Prosperity Denver for all identified instances. Although these students were already found ineligible by the quality assurance report, we still reviewed their eligibility against the other ordinance requirements.

Aside from this, as it relates to academic progress, there was no evidence for three students from the North Side High School Alumni Association Scholarship Foundation and three students from the Latin American Educational Foundation. Others either did not have evidence for the full school year, evidence was provided for an incorrect school year, or they did not actually meet the required progress despite being marked in the reimbursement request as having done so.

After we made Prosperity Denver Fund aware of graduate students receiving scholarship money, its board of directors adopted a policy to affirm graduate students are indeed eligible.

When it came to assessing whether students attended a qualifying post-secondary institution, we received no documentation for three students from the North Side alumni foundation and three students from the Latin American Educational Foundation.

Notably, we found Prosperity Denver gave scholarship reimbursements for some students' graduate studies — which Prosperity Denver itself was unaware of. Prosperity Denver did not have any policies or procedures about reimbursements for graduate students, and city ordinance is silent on whether reimbursements for graduate programs are eligible. The ordinance speaks only to attending "two-year and four-year programs."[45]

After we made Prosperity Denver aware of these instances of graduate students receiving scholarship money, the Prosperity Denver Board of

[44] Denver Revised Municipal Code § 11-33(c) (2020).

[45] Denver Revised Municipal Code § 11-34(3) (2020).

Directors adopted a policy in May 2023 that affirms graduate students are eligible for reimbursement.

Next, we reviewed the 7,570 approved reimbursement requests against these two requirements for attending a qualifying post-secondary institution and achieving satisfactory academic progress. We found no issues with attendance at qualifying post-secondary institutions other than the issues with data quality described in Finding 1.

Regarding the students' academic progress, we found that, much like with the eligibility requirement for financial need, staff at some supported organizations said it was difficult for them to obtain reliable evidence of the students' academic progress. Obtaining this information directly from post-secondary institutions was challenging because of data privacy concerns, and supported organizations sometimes had to contact students multiple times to get information in years after a scholarship was first awarded. In our analysis, we observed some supported organizations were confused about which school years to use as evidence for satisfactory academic progress.

AGE – Lastly, city ordinance required a student to be no older than 25 as of the final scheduled class day of their last school year for which a reimbursement was requested.[46]

For the 60 requests in our sample, we reviewed documentation such as high school transcripts and student applications for scholarships to verify each student's date of birth. We compared that to the final scheduled day of each post-secondary school, as provided by the supported organization that gave the scholarship. When the final school day was not listed, we used Aug. 9 as the end of the school year.

We found issues with data quality and missing evidence in the reimbursement requests. We counted two students from the Latin American Educational Foundation and three students from the North Side High School Alumni Association Scholarship Foundation as ineligible based on their age, because we were provided no documentation for them. The dates of birth were inaccurate for three students from the Sachs Foundation and four students from the Denver Scholarship Foundation in our sample. For example, at the Denver Scholarship Foundation, only age was provided for several school years. Prosperity Denver's consultant used May 1 of the corresponding year as an assumed date of birth for those students.

As mentioned in Finding 1, the Denver Scholarship Foundation did not share specific birth dates until the 2020-21 school year due to privacy protections. The foundation said that before the 2020-21 school year, it did not ask applicants for consent to share birth dates and other personally identifiable information because the original ordinance had not passed and Prosperity Denver had not established its reimbursement process before scholarship applications were opened to applicants.

[46] Denver Revised Municipal Code § 11-33(d) (2020).

Regarding the Sachs Foundation's errors, dates of birth in the reimbursement application were slightly incorrect when compared to the original source data.

When we re-analyzed these cases using the same methodology and compared that to actual dates of birth from the supported organizations' databases, we found four students had real dates of birth over a year away from the date used when Prosperity Denver Fund approved the reimbursement. While these students were still eligible at the time, these data-entry errors present a risk if the age had been close to the threshold.

Meanwhile, we found three ineligible students when we analyzed students' ages among all 7,570 approved reimbursement requests in our database. Prosperity Denver confirmed these, which totaled about $9,000 in reimbursements errors.

Various factors contribute to the data-entry errors and lack of supporting documentation for student eligibility

These errors underscore weaknesses in Prosperity Denver's data management processes, as we discussed in Finding 1.

Additionally, Prosperity Denver Fund identified several contributing factors that may have kept it from adequately verifying students' eligibility and that may have hindered some supported organizations from obtaining and keeping adequate supporting documentation as they were required to:

- Prosperity Denver signed its contract with the city in September 2019, less than a year before the COVID-19 pandemic began in spring 2020. The pandemic disrupted many areas of society, including requiring new patterns for work and education. For Prosperity Denver specifically, this impeded the nonprofit's ability to set up efficient and effective operations for the city's new program.

  The pandemic also affected how students attend college, how they are accepted to post-secondary institutions, and how the supported organizations fundraise and then grant and process scholarships.
- There are no other known city programs in the nation that Prosperity Denver Fund could use as a model in setting up its operations. As a small startup nonprofit, Prosperity Denver had to do a lot in a short period of time — such as hiring staff, establishing policies and procedures, qualifying supported organizations, creating awareness in the community, processing reimbursements, reporting, and evaluating the program.
- Many of the organizations involved — the Office of Children's Affairs, Denver Prosperity Fund, and some of the 35 supported organizations — have experienced turnover in key roles. For example, at the Latin American Educational Foundation, new hires in senior management positions joined the organization within the last year. At the Office of Children's Affairs, four employees in positions managing this contract started within a year of our audit beginning.

- In its annual agreements with the supported organizations, Prosperity Denver requires each supported organization to meet ordinance requirements. Furthermore, Prosperity Denver requires in these agreements that each organization keep documentation for three years that relates to its reimbursement requests and the payments it receives from city funds.[47] These organizations are also responsible for reviewing the list of approved students for accuracy before the Prosperity Denver Fund Board of Directors votes to reimburse an organization for them.

  However, a member of Prosperity Denver's board of directors told us they did not feel confident relying on the smaller supported organizations to verify documentation — acknowledging that some supported organizations are probably not well-equipped to implement what is required of them, and it may not be feasible for them to manually check each student's information. At the same time, there was no alternative due to the lack of a data management system that can automatically validate the data for at least some of the required qualifications.

A member of Prosperity Denver's board acknowledged it may not be feasible for supported organizations to manually check each student's information.

We also found the underlying cause of the issues with supporting documentation and the data-entry errors for student eligibility is the system of oversight where supported organizations are mainly responsible for determining eligibility and retaining relevant documentation. Our analysis and interviews uncovered other, additional causes:

- The Office of Children's Affairs — which is responsible for monitoring the city's contract with Prosperity Denver Fund — plays no role in the reimbursement process. As discussed in Finding 1, Children's Affairs staff were unaware that Prosperity Denver's data management had significant weaknesses in the verification and documentation process as identified in the two quality assurance reports in 2022.
- We found no evidence that the Prosperity Denver Fund Board of Directors discussed the quality assurance reports after they were issued in August and September last year. Meeting minutes show the quality assurance program was discussed with the board in May 2022, before either report was issued.

  Subsequent meeting minutes include no details or action plans to address the weaknesses highlighted in these reports. Prosperity Denver staff said they discussed the report findings at the board's finance committee, but they provided no meeting minutes to support that claim.
- The Denver Scholarship Foundation has three levels of review before submitting requests to Prosperity Denver and staff provided an example of reviews for the fall 2022 submission. However, our analysis found no documented evidence that a supervisor at the other three supported organizations reviewed each reimbursement request to confirm them before submitting them to Prosperity Denver.

[47] The three-year time frame begins when a document is created.

Such a review would help the organizations find errors or notice missing documentation. Federal guidance says management should design a variety of control activities for operational processes, which may include verifications, authorizations and approvals, and supervisory controls.[48]

- Prosperity Denver is not providing clear guidance to the supported organizations about what is required to verify eligibility and what documentation is reliable.

  For example, we asked Prosperity Denver staff where they had communicated to the supported organizations that they were responsible for ensuring submitted forms were complete and accurate. Prosperity Denver pointed to its "helpful hints" documents, which did provide some clarity about what types of evidence are sufficient — such as a student's signature on their scholarship application — to prove some of the qualifications such as residency. However, the "helpful hints" documents cover only three of the five eligibility requirements in city ordinance. Furthermore, it is notable that these documents are labeled as "hints," not requirements.

  Prosperity Denver's staff also referred us to the three-year records retention requirement in its annual agreements with supported organizations.

  None of these documents requires a representative of a supported organization to certify they verified eligibility and kept adequate supporting documentation — in addition to assuring completeness and accuracy of reimbursement requests before submitting them to Prosperity Denver.

No document from Prosperity Denver Fund clearly says the supported organization must certify that their reimbursement request is complete and accurate.

Prosperity Denver staff said, to address these issues, they provided more training to the supported organizations and are creating a database that would allow for fewer manual processes and better automated quality control, such as not allowing a reimbursement request if required information fields are missing.

But because of the weak system of oversight and the lack of controls, potential errors or fraud may not be prevented or may go undetected, and Prosperity Denver Fund may continue reimbursing ineligible students.

While some students may nonetheless be eligible for reimbursements, this cannot be proven without the supported organizations and Prosperity Denver collecting and keeping sufficient evidence and documentation. Reimbursement for potentially ineligible students can damage the city's reputation and erode public confidence in this voter-initiated program.

[48] U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014), accessed Feb. 7, 2023, https://www.gao.gov/assets/gao-14-704g.pdf, para. 10.10.

2.1 RECOMMENDATION Ensure oversight of student eligibility

The Office of Children's Affairs should ensure Prosperity Denver Fund adequately oversees the process of verifying students' eligibility to receive the designated tax dollars from the College Affordability Fund program. Prosperity Denver Fund's oversight process should be documented, and Children's Affairs should enforce it. At a minimum, Children's Affairs should ensure Prosperity Denver Fund:

- **Aligns its records retention requirements with its own policy, especially related to keeping supporting documentation regarding students' eligibility.**
- **Periodically reviews and updates its policies and procedures to ensure supported organizations obtain and keep documentation evidencing students' eligibility.**
- **Makes its updated policies and procedures readily available to all supported organizations.**
- **Requires that reimbursement requests undergo a secondary review by someone other than the individual who prepared it.**
- **Continues providing training to supported organizations to ensure policies and procedures are clearly communicated.**

AGENCY RESPONSE – AGREE, IMPLEMENTATION DATE – JUNE 30, 2024
SEE PAGE 50 TO READ THE AGENCY'S RESPONSES.

2.2 RECOMMENDATION Review supporting documentation

The Office of Children's Affairs and Prosperity Denver Fund should design and implement a process to review a sample of supporting documentation from the supported organizations during each reimbursement period. This process should be used to identify weaknesses in the reimbursement process and to update guidance to the supported organizations to ensure only eligible students receive tax-funded support.

AGENCY RESPONSE – AGREE, IMPLEMENTATION DATE – MAY 31, 2024
SEE PAGE 50 TO READ THE AGENCY'S RESPONSES.

2.3 RECOMMENDATION Obtain refunds for errors discovered in this audit

In line with previous refund practices, the Office of Children's Affairs and Prosperity Denver Fund should obtain refunds from supported organizations for reimbursements where this audit could not find sufficient evidence of students being eligible. In addition, Prosperity Denver Fund should analyze and identify other potential instances where these ineligible students may have been inappropriately reimbursed, so the city can be refunded.

AGENCY RESPONSE – AGREE, IMPLEMENTATION DATE – AUG. 15, 2023

SEE PAGE 50 TO READ THE AGENCY'S RESPONSES.

FINDING 3 AND RECOMMENDATIONS

Some supported organizations lack sufficient documentation to support every payment for eligible students

As the third-party contractor in charge of administering the Denver College Affordability Fund program, Prosperity Denver Fund uses the city's designated tax dollars to reimburse qualifying supported organizations for scholarships and support services they gave students in the previous school year.

After Prosperity Denver Fund receives a reimbursement request from a supported organization, its staff review each request to evaluate whether a student is eligible for reimbursement based only on the information provided in the reimbursement request. Prosperity Denver does not verify the information in the reimbursement request any further by consulting support documentation. If information is missing, Prosperity Denver staff said they follow up.

When a request is approved, Prosperity Denver's consultant calculates the reimbursement percentage and amount the supported organization should receive based on Prosperity Denver's policy.

Each supported organization has its own process for making scholarship payments on students' behalf, collecting relevant documents, and determining student eligibility before requesting reimbursement from Prosperity Denver.

We analyzed the payment processes to reimburse for scholarships and support services to determine whether Prosperity Denver was paying out accurate amounts for only eligible students. Specifically, we analyzed whether:

- Prosperity Denver calculated and paid accurate, approved amounts to the supported organizations.
- Supported organizations paid these amounts to post-secondary institutions.
- Supported organizations had adequate supporting documentation for amounts requested to reimburse for support services.

We identified several problems in these processes that indicate lacking internal controls and create a risk for potential fraud or errors — especially if the Office of Children's Affairs and Prosperity Denver Fund do not ensure adequate oversight within the program.

As we have discussed, Prosperity Denver says the supported organizations — and not Prosperity Denver — are responsible for obtaining, reviewing, and maintaining documentation to support each reimbursement request. The nonprofit's annual agreement with each supported organization

requires the supported organization to maintain documents relating to its requests to and payments from Prosperity Denver for three years. The only effort we found to enforce and monitor compliance with this requirement were the two quality assurance reports in 2022.

PAYMENTS FROM PROSPERITY DENVER TO SUPPORTED ORGANIZATIONS – First, we tested whether only students marked as eligible for every eligibility category were selected for reimbursement by Prosperity Denver's consultant after the consultant's staff reviewed the reimbursement request spreadsheets. Out of all 7,570 approved reimbursement requests, we found Prosperity Denver erroneously reimbursed scholarships for nine students despite them being reported ineligible by their supported organization due to not meeting academic progress requirements.

Prosperity Denver staff said it was a human error when they reviewed the reimbursement requests. These cases totaled about $21,000, only 0.1% of the approved requests. As part of this review, Prosperity Denver and its consultant found three additional students who did not meet the academic progress requirements.

Next, we tested whether Prosperity Denver accurately calculated the amounts of reimbursement based on the financial need data in the reimbursement requests and its scholarship reimbursement calculation policy. When analyzing the data in the whole dataset, we found three errors where reimbursement rates were incorrectly applied. Prosperity Denver confirmed these errors. In particular, the nonprofit overpaid $397 for two students and underpaid for a third student by $300.

Additionally, in 30 of the 60 cases described in Finding 1 — all for school year 2018-19 — Prosperity Denver used a 70% reimbursement rate instead of the 75% reimbursement rate required by its policy at the time. Prosperity Denver's consultant said the board of directors approved this exception at the time and Prosperity Denver did not view it as a risk because this did not result in any overpayments.

We also analyzed whether amounts reported as paid to supported organizations were in fact sent to them and whether amounts matched. Based on approved reimbursement requests, Prosperity Denver sends one payment to each supported organization in the fall and spring. This payment covers all students at each organization whose scholarships were approved for reimbursement for the prior school year. To verify that amounts were paid to supported organizations as Prosperity Denver reported, we requested bank statements from supported organizations for school years in our sample.

We confirmed that all payments from Prosperity Denver to the supported organizations matched. These amounts also matched the amounts presented in Table 1 on page 28. In the cases of the Latin American Educational Foundation and the North Side High School Alumni Association Scholarship Foundation, the organizations could not provide all evidence of reimbursements received, and we had to obtain this evidence from Prosperity Denver. Although we were able to confirm all payments from

Prosperity Denver, these two organizations are not compliant with their annual agreements with Prosperity Denver — which require them to keep all evidence of reimbursements received for three years.

SCHOLARSHIP PAYMENTS BY SUPPORTED ORGANIZATIONS – We sought to trace the money these sampled supported organizations paid out for the specific students to ensure the reported scholarship was actually made and the amount was accurate.[49]

Among our sample:

- Most supported organizations — including the largest of them, the Denver Scholarship Foundation — make scholarship payments directly to each post-secondary institution. For example, the Denver Scholarship Foundation sends letters to each post-secondary institution with a list of students, their individual scholarship amounts, and the total amount paid on behalf of those students for the academic term. We found no issues with payments for the 30 students from the Denver Scholarship Foundation.
- The Sachs Foundation sends scholarship amounts to post-secondary institutions by student. We traced every payment for the 10 reimbursement requests in our sample with no identified issues.
- The North Side High School Alumni Association Scholarship Foundation generally provided checks directly to the students and not to the post-secondary institutions. We did not find this practice concerning, considering that Prosperity Denver only reimburses for eligible students after they attended an eligible institution and met satisfactory academic progress requirements. There is no requirement in city ordinance regarding the scholarship distribution method.

  The alumni foundation did not provide us with evidence for scholarship amounts paid to the three students we had determined were not eligible for reimbursement.[50] For the other seven students, we matched the amounts reported in reimbursement requests with amounts on checks and in bank statements.[51]
- We could not trace any of the 10 payments that the Latin American Educational Foundation had sent to post-secondary institutions using either bank statements or checks. We received one check illustrating that the foundation sends payments to post-secondary institutions.

  In addition, the foundation provided an internal tracking file that listed scholarship awards, payments, and relevant notes by student. Although an Excel spreadsheet is not the most reliable source of supporting documentation, we compared this list to the amounts

[49] We did not verify with each post-secondary institution that they had received the payment. See Appendix A for more details about our sampling methodology and data analysis.

[50] See our discussion in Finding 2.

[51] For one student, the North Side High School Alumni Association Scholarship Foundation sent one check to the Denver Scholarship Foundation because of a scholarship-matching program between the two organizations. In this case, the Denver Scholarship Foundation sent the money to the post-secondary institution, and the foundation said they did not double-count this scholarship when requesting reimbursement from Prosperity Denver.

of scholarships reimbursed from Prosperity Denver and found discrepancies for three of the 10 students.

Based on this internal spreadsheet, we found that one of these students did not receive a scholarship in the school year in our sample, while the other two received smaller scholarships than listed in the reimbursement request. As a result, Prosperity Denver potentially overpaid the Latin American Educational Foundation about $2,000 for scholarships and about $1,000 for support services for these three students.

Without proper oversight and controls, Prosperity Denver Fund risks paying inaccurate amounts in its reimbursements to supported organizations.

We identified several reasons for the lack of documentation and the potential errors at the Latin American Educational Foundation. Specifically, the foundation could not provide us with bank statements or copies of checks because staff were new, did not know how reimbursement requests were submitted in the past, and did not have access to old records as some of this information dated back to 2018.

This highlights a weakness in Prosperity Denver's policy requiring supported organizations to keep supporting documentation for only three years. In contrast, Prosperity Denver's own retention policy requires expenditure records to be kept for seven years.

Additionally, none of Prosperity Denver's forms and policies require specific types of evidence of payments and deposits supported organizations must keep or any supervisory reviews they must perform.

SUPPORT SERVICES REIMBURSEMENTS – As discussed in the background, supported organizations can also seek reimbursement for support services provided to eligible students. These services are designed to increase the likelihood a student will graduate from college by providing, for example, academic tutoring, graduation coaching, financial aid services, and career or academic counseling.[52]

We identified gaps where the supported organizations are not keeping sufficient documentation for support services.

ALLOWED SUPPORT SERVICES FOR REIMBURSEMENT

Support services can include tutoring services, advice and help in applying for admission to a two-year or four-year program or choosing courses, coaching toward graduation, other financial aid assistance, education and counseling to improve a student's financial and economic literacy, career and academic counseling, and mentoring programs.

Like with the scholarship money, support services are first provided and paid for by the supported organization, after which they can seek reimbursement from the city's designated tax dollars. Prosperity Denver Fund reimburses qualifying supported organizations directly for the

[52] Denver Revised Municipal Code § 11-34(3) (2020).

support services they provide. Prosperity Denver's board of directors can determine whether a service or category of services is reimbursable, in addition to what is laid out in city ordinance.

Prosperity Denver Fund provides the supported organizations with a template — including specific instructions — to help them calculate and submit reimbursement requests. Reimbursement amounts are broken down into three categories: personnel costs, direct operating costs, and indirect costs.

- **PERSONNEL COSTS** – Supported organizations identify the staff members who provided the support service to a student such as campus advisers, coordinators, or scholarship data coordinators. A related portion of that employee's compensation can be included in the request for reimbursement to Prosperity Denver Fund. The template instructions ask for a description of the support personnel and their positions.

- **DIRECT OPERATING COSTS** – Each supported organization can include a portion of its operating expenses — such as office supplies, technology, event expenses, parking, and professional development costs — in the reimbursement request.

- **INDIRECT COSTS** – Indirect costs are automatically calculated as 10% of the personnel and direct operating costs. Indirect costs are operational expenses that cannot be directly tied to the specific program within the supported organization but are necessary for operations.

The total across these three categories is divided by the number of students supported during a given period to then calculate an average support services amount per student. As with the scholarship money, Prosperity Denver Fund will reimburse a supported organization up to 75% per student. The reimbursement for a student's support service cannot exceed what was reimbursed for that student's scholarship.

We reviewed requests for support services reimbursement for the Denver Scholarship Foundation, the Latin American Educational Foundation, and the North Side High School Alumni Association Scholarship Foundation since the 2018-19 school year. The Sachs Foundation does not request reimbursements for support services.

- For the Latin American Educational Foundation, we obtained the relevant payroll reports for all four years. Staff job descriptions were not included, only the total amounts. Payroll amounts were higher in the reimbursement request compared to the payroll report in three of years we looked at. Overages ranged from $1,300 to $14,000, or 2% to 25% higher than the total amount showing in the payroll reports.

  But for the 2021-22 school year, the payroll report exceeded the reimbursement request amount by $400 — meaning the foundation did not overcharge Prosperity Denver Fund for more than what the payroll report showed.

Meanwhile, we were given no evidence for how the rate for fringe benefits was established. For the 2018-19 school year, it is unclear why fringe costs for each category were 15% but the overall for the year was 17.3%. There was also no support provided for the direct operating costs or the number of students, except a small portion for the 2021-22 school year.

- For the North Side High School Alumni Association Scholarship Foundation, we obtained the totals for salary and benefits for one employee from the high school principal's email. The reimbursement request for the 2021-22 school year listed additional direct operating costs but included no supporting documentation, such as invoices or printouts from an accounting system.
- For the Denver Scholarship Foundation, the largest recipient of tax-funded support from the Prosperity Denver Fund, we found all percentage allocations, staff job titles and descriptions, and calculations to be reasonable.

  But we could not trace and verify exact amounts because, in some cases, there was not a direct link between the supporting documentation and a reimbursement request. For example, while the foundation provided annual salary amounts for 46 employees, the payroll report showed costs for 58 employees.

  Managers for the Denver Scholarship Foundation said they informally review support services reimbursement requests before submitting them to Prosperity Denver, but this review-and-approval process is not formally documented. Because we could not independently trace the reimbursement request forms to the supporting documentation, it is unclear how the Denver Scholarship Foundation could have verified it.

Prosperity Denver staff said that because they have only a few employees and could only spend 5% of their funding on administrative costs, they do not review the underlying documentation that the supported organizations are supposed to use to calculate the cost of their support services.

Therefore, Prosperity Denver did not have a process to detect and prevent these errors. In total, we found 23 of 60 students in our sample were either ineligible or there was not sufficient evidence provided regarding their eligibility. This corresponded to about $66,000, or about 40% of the $166,000 tested. These amounts include both scholarship reimbursement and support services reimbursements. They do not include the few errors found during our analysis of the full dataset.

Only three of the 23 students were from the Denver Scholarship Foundation. The remaining 20, or about 67% of the 30 tested, were from smaller supported organizations.

Because we analyzed a nonrepresentative sample, we cannot speak to how many issues with supporting documentation there may be across all 7,570 approved reimbursements. For instance, these testing results do not mean that 67% of all approved students at smaller supported organizations were ineligible.

As we showed in Figure 5 on page 30, the Denver Scholarship Foundation made up half of our sample and only had three ineligible students. All three of those were known to the foundation to be ineligible and the organization had refunded for two of these students by the time of our audit. Because the Denver Scholarship Foundation received about 87% of all funding during our testing period, it is possible that the error rate in the whole population is significantly lower than within our sample. However, as mentioned above, we cannot speak to how many were ineligible across the whole population based on this sample.

In addition to the findings in our sample testing, our analysis for student eligibility using the full reimbursement database — without reviewing supporting documentation — found the total overpayment was about $30,000, or about 0.1% of the total approved amounts. These overpayments were related to the three students who were ineligible because of their age and the nine students who were ineligible for not meeting satisfactory academic progress, whom we described earlier in the report.[53]

As discussed in Finding 1, federal standards say an oversight body is responsible for supervising the organization's system of internal controls — the policies, procedures, and processes that ensure an organization or program operates as intended. Additionally, the oversight body should oversee the organization's operations. There should be processes to meet the requirements of applicable laws, regulations, and government guidance.[54]

Prosperity Denver Fund is responsible for administering the Denver College Affordability Fund program, and it expects the supported organizations to have sufficient controls for the reimbursement process. But Prosperity Denver does not give much guidance or have clear requirements for the supported organizations to follow.

Supported organizations are expected to review documentation before seeking reimbursements for scholarships and support services. At the same time, staff at Prosperity Denver Fund and staff within the supported organizations acknowledge many of these supported organizations are smaller, some rely on volunteers, and they have high turnover — all of which present obstacles for them to do more to collect and keep the necessary documentation.

But without proper oversight and controls within the payment process, Prosperity Denver Fund risks paying inaccurate amounts in its reimbursements to supported organizations or paying for scholarships or expenses not actually incurred or not actually eligible. Additionally, without more adequate and thorough guidance from Prosperity Denver or the city, supported organizations risk miscalculating their reimbursement

[53] One of the students was found in both our data analysis and sample testing, so Prosperity Denver should adjust for this when seeking a refund.

[54] U.S. Government Accountability Office, GAO-21-368G, "Government Auditing Standards" (2021), accessed May 25, 2023, https://www.gao.gov/assets/gao-21-368g.pdf, para. 2.02.

requests and not keeping sufficient documentation.

This diminishes transparency with Denver residents, who voted to have a portion of their tax dollars go specifically to the Denver College Affordability Fund program to help students from families with lower incomes afford the high cost of a post-secondary education.

3.1 RECOMMENDATION — Establish detailed requirements for retaining documentation evidencing payments

The Office of Children's Affairs should ensure Prosperity Denver Fund establishes and documents clear requirements for supported organizations to maintain records showing all funds received from Prosperity Denver Fund and all funds paid for student scholarships.

AGENCY RESPONSE – AGREE, IMPLEMENTATION DATE – DEC. 31, 2023
SEE PAGE 50 TO READ THE AGENCY'S RESPONSES.

3.2 RECOMMENDATION — Establish detailed requirements of support services documentation

The Office of Children's Affairs should ensure Prosperity Denver Fund establishes and documents clear requirements for supported organizations to prepare and keep reliable and accurate supporting documentation for calculating support services costs. At a minimum, the requirements should include:

- **Keeping any documents and calculations necessary to validate a reimbursement request— such as payroll reports, a list of students served, and accounting reports for relevant costs.**
- **Having a second person review and formally approve initial calculations before submitting a reimbursement request to Prosperity Denver Fund.**

AGENCY RESPONSE – AGREE, IMPLEMENTATION DATE – DEC. 31, 2023
SEE PAGE 50 TO READ THE AGENCY'S RESPONSES.

AGENCY RESPONSE TO AUDIT RECOMMENDATIONS

The following agency narratives are reprinted verbatim from the agency's response letter.

RECOMMENDATION 1.1

AGENCY RESPONSE: AGREE

AGENCY'S TARGET DATE FOR IMPLEMENTATION: DEC. 31, 2023

OCA is committed to process improvement in all aspects of our operations. Currently, OCA updates our Contract Administration Plans (CAP) annually and provides an updated plan to PDF at the start of each calendar year. OCA will begin the update to the plan earlier to ensure the plan includes proper safeguards and oversight processes with a goal of increasing supervision of PDF. Currently OCA's Contracts & Compliance team consists of one Contract Administrator and one Contract Compliance Coordinator. These two staff manage an average of 131 contracts each year with nearly 100 vendors. These numbers do not include our Special Revenue Fund contracts, which are a priority to our agency and do require a high level of oversight to ensure fidelity to the intended purpose of the tax revenue funds allocated to these funds..

OCA is working on building our operational capacity and will be hiring an additional Contract Compliance Coordinator this year. Additionally, our 2024 budget request includes three additional contracts staff to help better spread the workload our two staff are currently carrying. Finally, OCA has also requested a Special Projects Administrator who would be dedicated to overseeing all programming funded by Special Revenue Funds, including PDF, Denver Preschool Program, and the newly created Broncos Fund. OCA has never had one dedicated staff person to oversee this work, but as OCA continues to grow, the need for a dedicated staff member becomes greater. With added capacity, OCA will be in a much better position to provide the level of oversight recommended by this report.

If the requested positions are not added, OCA will still develop and document more extensive oversight processes through the Contract Administration Plan, and these processes will be implemented by the Contracts & Compliance team with oversight from the Deputy Director of Operations.

RECOMMENDATION 1.2

AGENCY RESPONSE: AGREE

AGENCY'S TARGET DATE FOR IMPLEMENTATION: JUNE 30, 2024

PDF is in the process of creating a data management plan with their contractor as they build out a database and the processes that go along with implementing the database. OCA will work closely with PDF to build out a data management plan based on their new processes and procedures to ensure streamlined and seamless efforts. OCA will develop a desk audit process that complements the data management plan and ensures accuracy of data and reporting.

RECOMMENDATION 1.3

AGENCY RESPONSE: AGREE

AGENCY'S TARGET DATE FOR IMPLEMENTATION: DEC. 31, 2023

PDF will hire a Data & Evaluation Director who will serve as the point person responsible for developing and maintaining a data management plan as well as implementing recommendations from the QAP and City Audit reports.

OCA will work closely with the Data & Evaluation Director to understand quality assurance processes and develop processes that provide the appropriate level of oversight and remediation of potential errors.

RECOMMENDATION 2.1

AGENCY RESPONSE: AGREE

AGENCY'S TARGET DATE FOR IMPLEMENTATION: JUNE 30, 2024

OCA will develop and implement a desk audit process to ensure the verification process being overseen by Prosperity Denver Fund is providing the appropriate support to supported organizations while creating reasonable safeguards to ensure reimbursements are accurate and eligible, including reliance on federally regulated post-secondary institutional data where possible.

RECOMMENDATION 2.2

AGENCY RESPONSE: AGREE

AGENCY'S TARGET DATE FOR IMPLEMENTATION: MAY 31, 2024

PDF is currently developing a new database that will streamline data collection processes and help increase data analysis and reporting capabilities. As part of that process, PDF is discussing how to ensure data is accurate and sufficient supporting documentation is collected and maintained. Those steps are needed to implement this recommendation. PDF will work with OCA and supported organizations via the Fall 2023 and Spring 2024 distributions to design and implement a reasonable expanded document review process, which includes reliance on federally regulated post-secondary institutional data where possible.

OCA will work closely with PDF to develop an understanding of PDF's new processes and procedures related to the implementation of the new database. OCA will base compliance and oversight processes on the functionality of the database.

RECOMMENDATION 2.3

AGENCY RESPONSE: AGREE

AGENCY'S TARGET DATE FOR IMPLEMENTATION: AUG. 15, 2023

PDF has a longstanding policy and practice to ensure reimbursements are accurate and to correct errors if identified, including collection of refunds from supported organizations. This process is underway, and PDF expects to have funds ready to deposit by August 15, 2023.

OCA will request a report of requested refunds and require documented updates from PDF on receipt of refunds in each monthly check-in until all refunds have been received.

RECOMMENDATION 3.1

AGENCY RESPONSE: AGREE

AGENCY'S TARGET DATE FOR IMPLEMENTATION: DEC. 31, 2023

OCA will include clear requirements for supported organizations to maintain records in the updated CAP to align with the City & County of Denver's Record Retention Policy. Additionally, OCA will ensure this requirement is being met as part of the desk audit developed by the Contracts & Compliance team.

RECOMMENDATION 3.2

AGENCY RESPONSE: AGREE

AGENCY'S TARGET DATE FOR IMPLEMENTATION: DEC. 31, 2023

OCA will include clear requirements for PDF to ensure supported organizations maintain records in the updated CAP, including providing regular training to SO's and new SO staff. Additionally, OCA will ensure records retention requirements and training requirements are being met as part of the desk audit developed by the Contracts & Compliance team.

OBJECTIVE

To review the tax-funded College Affordability Fund program and determine how well Prosperity Denver Fund and the program's supported organizations have ensured students were eligible for scholarship and support services reimbursements and whether amounts paid out from the fund were accurate.

SCOPE

We reviewed processes and data related to the Denver College Affordability Fund program to determine how well the Office of Children's Affairs and its third-party contractor, Prosperity Denver Fund, were complying with city ordinance as it existed in 2022 and early 2023. We analyzed the disbursements from Prosperity Denver to supported organizations — reimbursements for scholarships and support services — for the 2018-19 school year through the 2021-22 school year.

There are generally two payments in each school year, given to reimburse scholarships and services provided the year prior. Our testing included the reimbursements processed only through fall 2022 for the prior school year. Data for the full 2021-22 school year — particularly reimbursements in spring 2023 — was not complete as of the time of our audit.

This audit was based on the prior version of the ordinance in effect before new ordinance changes passed in May 2023.

METHODOLOGY

We used several methodologies to gather and analyze information related to the audit objectives. The methodologies included but were not limited to:

- Interviewing:
  - Staff from the city's Office of Children's Affairs and Department of Finance.
  - Representatives from Prosperity Denver Fund.
  - A member of the Prosperity Denver Fund Board of Directors.
  - Representatives from six supported organizations:

        - The Denver Scholarship Foundation.
        - The Harry L. and Eva J. Puksta Foundation.
        - The Latin American Educational Foundation.
        - Minds Matter Colorado.
        - The North Side High School Alumni Association Scholarship Foundation.
        - The Sachs Foundation.
- Reviewing and analyzing:
    - The Denver College Affordability Fund ordinance.
    - The contract between the city and Prosperity Denver Fund.
    - Denver's Executive Orders No. 8 and No. 101.
    - The city's Fiscal Accountability Rule 2.5.
    - The city's 2019, 2020, and 2021 annual financial reports.
    - The city's budgets for 2020, 2021, 2022, and 2023.
    - Prosperity Denver's financial statements for its fiscal years ending Sept. 30 in 2019, 2020, 2021, and 2022.
    - Fund distributions from Prosperity Denver to supported organizations for the 2018-19 school year through the 2021-22 school year.
    - The Office of Children's Affair's contract administration plan.
    - Organizational charts from the Office of Children's Affairs and Prosperity Denver.
    - Guidance from the U.S. Government Accountability Office, namely its reports on:
        - "Government Auditing Standards."
        - "Standards for Internal Control in the Federal Government."
        - "Assessing Data Reliability."
    - Policies and procedures and reports from Prosperity Denver, including:
        - A 2020 community outreach and impact report
        - 2021 and 2022 strategic frameworks and annual workplans.
        - 2020 and 2021 annual reports.
- Compiling Prosperity Denver's 14 individual disbursement spreadsheets into one database and performing data analysis, as discussed in Appendix A.
- Sampling and testing scholarship and support services reimbursements against eligibility requirements and allowable expenditures, as discussed in Appendix A.
- Researching the cost of higher education at post-secondary institutions in Colorado, as discussed in Appendix B.

APPENDICES

Appendix A – Sampling methodology and data analysis

To test whether students met eligibility requirements, we used a two-pronged approach: data analysis of all the requests and a sample to verify that information was supported by documentation and accurately entered.

First, we analyzed the data in Prosperity Denver Fund's disbursement spreadsheets to assess whether the nonprofit had sufficient data to determine student eligibility, whether it accurately determined student eligibility for reimbursements based on the data in those spreadsheets, and whether it calculated accurate reimbursement amounts.

Staff at Prosperity Denver Fund provided 14 Excel files that they used to review 7,814 reimbursement requests from supported organizations for scholarships and support services provided from fall 2018 through spring 2022. To assess this data and fulfill our audit objectives:

1. We standardized the column names across the different files and used the new column names to merge all 7,814 requests across the 14 Excel files into a single dataset. We filtered the requests to include only those marked as "approved." We identified 244 requests that were pending or denied. By excluding those from our analysis, this left us with 7,570 approved reimbursement requests.

   This equates to an approval rate of about 97%. This high percentage is not a concern because supported organizations should be seeking reimbursement only for students that they already determined were eligible and for whom they have supporting documentation.

2. We then grouped the requests by what supported organization they were associated with, and we sorted this list by the number of requests for reimbursement each organization made.

   As shown in Appendix C, the Denver Scholarship Foundation made the most requests with 6,634 — which accounted for about 88% of all requests approved since 2018-19 school year. The organizations with the next three highest number of approved requests in our initial analysis were:

   - The Latin American Educational Foundation, with 129 approved requests.
   - The Sachs Foundation, with 111 approved requests.
   - The North Side High School Alumni Association Scholarship Foundation, with 86 approved requests.

   Later in our audit — after we had completed this analysis — Prosperity Denver Fund provided revised data that revealed the Harry L. and Eva J. Puksta Foundation was actually the fourth highest with 91 requests. When Prosperity Denver staff originally provided the 14 Excel files with the disbursement amounts, they did not account for amounts the North Side alumni foundation had returned to Prosperity Denver because of errors identified in the quality assurance report, which we discussed in Finding 1.

3. We used our professional judgment in deciding to test 60 reimbursement requests worth $166,000 for further analysis:

   - Thirty randomly selected from among the Denver Scholarship Foundation's requests.
   - Ten randomly selected from each of the Latin American Educational Foundation's, the Sachs Foundation's, and the North Side High School Alumni Association Scholarship Foundation's requests.

4. For each request in our sample, we requested documentation from the respective supported organization so we could verify the eligibility of each student and each payment in the reimbursement requests. This testing was the second part of our approach, described in more detail below.

To test whether each request included complete and accurate information in the spreadsheet to comply with the ordinance requirements for student eligibility:

1. We first calculated each student's age by subtracting the field in the "Last Class Day" column with the field in the "Date of Birth" column. We flagged all instances where:
   - A student's age was greater than 26.
   - A field was missing data.
   - A "Date of Birth" field did not contain a full date.
2. Next, we downloaded a list of Colorado-based non-profit, private, and public institutions from the Colorado Department of Higher Education.[55] We compared this list to the "Post-Secondary Institution 1" column in the spreadsheet, and we flagged instances where fields in this column were either blank or included a post-secondary institution not on the state's list.
3. In the column for "Satisfactory Academic Progress," we flagged fields that were blank. We also identified instances where a field was marked as "No," but the supported organization still was approved for reimbursement for the student.
4. To assess whether students who received reimbursements met the residency requirement, we developed two tests: We calculated both the length of time a student attended a high school in Denver and how long a student lived in Denver.

   To align with the program requirements in city ordinance, we applied both calculations to all requests where the first day of post-secondary education was before Jan. 1, 2021. For all requests where the first day of post-secondary education was after Jan. 1, 2021, we calculated only how long the student lived in Denver.

   From these results, we flagged instances when either the length of residency was less than 36 months or when the required residency information was not included.
5. Lastly, among many other policies and procedures, staff at Prosperity Denver Fund provided us with two policies showing a list of approved "financial need measures" and the reimbursement rate applicable to each. One of them was for school year 2018-19 and the other one has been in effect since then. We used this list to test whether each reimbursement request included the correct rate based on the student's measure of financial need as listed in the data.

   We flagged all instances where the reimbursement request either contained a measure that was not on Prosperity Denver Fund's list or where it contained an incorrect rate based on what measure was used. We also tested whether the supported organizations were reimbursed at a 75% rate for all scholarships submitted for the 2018-19 school year, as stated in Prosperity Denver's policy for that period.
6. After our testing, we totaled the number of flagged requests for each eligibility requirement that were marked as "approved." We also identified the requests that passed all our tests but were marked as "denied."
7. Second, we tested our sample of 60 approved-and-paid reimbursement requests from supported organizations to verify the supporting documentation. This allowed us to confirm whether the supported organizations were obtaining evidence and keeping documentation, as required, to prove student eligibility, whether information in the reimbursement request forms to Prosperity Denver matched this supporting documentation, and whether they were eligible based on this information.
8. We also requested documents supporting calculations of support services for the same students. This included Excel spreadsheets, profit and loss statements, payroll reports, and support service

[55] A full list of Colorado-based institutions was found here and filtered for categories allowed by the ordinance: https://highered.colorado.gov/Data/InstSelect.aspx.

reimbursement forms. We traced the amounts from supporting documentation to the request sheets. In addition, we recalculated the amounts per student based on the number of students provided.

9. We also tested the disbursements from Prosperity Denver to this sample of supported organizations for the periods relevant to the sample items. For example, if one of the disbursements selected was for a Denver Scholarship Foundation student for the 2021-22 school year, we tested whether Prosperity Denver Fund transferred funds to the Denver Scholarship Foundation for this school year. Because funds are transferred to supported organizations for all students together, we traced the total amount.

   Further, we tested whether the supported organization transferred the funds reported in its scholarship reimbursement request to the post-secondary institution or, in the case of one supported organization, paid to the student. This disbursement testing allowed us to verify that taxpayer funds were actually used to fund scholarships and support activities at supported organizations and that amounts were accurately reflected in the reimbursement spreadsheet. These results are discussed in Finding 3.

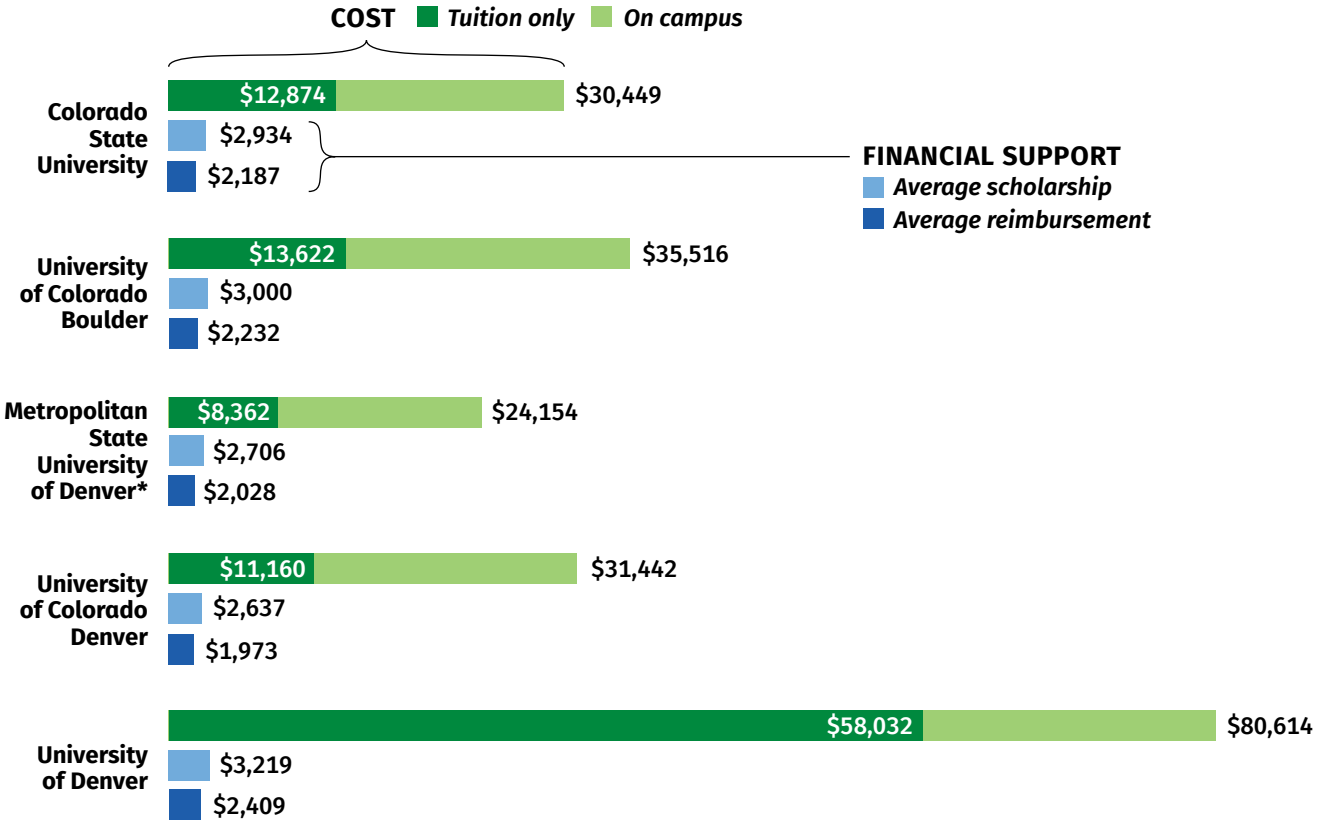
Appendix B – Cost of tuition, average scholarships, and reimbursements

Five post-secondary institutions in Colorado are the most commonly attended by students who benefited from the city's designated tax dollars, based on the amount of money reimbursed by Prosperity Denver to supported organizations.

Figure 6 compares undergraduate, in-state tuition with the average tax-funded scholarship amounts to students attending these institutions who had received their scholarships through supported organizations reimbursed with Denver's designated tax dollars.

FIGURE 6. Top five Colorado post-secondary institutions for students benefiting from the Denver College Affordability Fund program

The data for cost of attendance is based on annual amounts for undergraduate students and is applicable only to Colorado residents. It does not include any financial aid awards or cost reductions that may be available for an in-state student.



** This institution does not have on-campus housing, so this number represents the estimated off-campus cost of attendance.*

***Note:** Amounts for the average scholarship reimbursement are based on reimbursement data from Prosperity Denver Fund through fall 2022 for the 2021-22 school year. Reimbursements to supported organizations are limited to no more than 75% of the cost of a scholarship. While we identified a few reimbursements for graduate studies, those were rare and would not significantly impact the average reimbursement amount.*

***Source:** Auditor's Office illustration based on information from each university's website and reimbursement data from Prosperity Denver Fund.*

Appendix C – College affordability funding given to supported organizations

Since the College Affordability Fund program began, Prosperity Denver Fund has given $20.9 million to 35 supported organizations using the voter-approved portion of the city's sales and use tax revenue. Table 3 provides the overall totals as well as details for the top 15 supported organizations — ranked by the number of scholarships reimbursed and the amount of money in tax-funded reimbursements they have received.

TABLE 3. Top 15 supported organizations reimbursed by Prosperity Denver Fund, school years 2018-19 through 2021-22

Rank	Name of supported organization	Number of scholarships reimbursed	Amount of scholarship money reimbursed	Amount of money reimbursed for support services	Total amount of tax-funded reimbursement
1	Denver Scholarship Foundation	6,634	$13,271,292	$4,852,474	$18,123,766
2	Latin American Educational Foundation	129	$175,910	$91,695	$267,606
3	Sachs Foundation	111	$526,145	$0	$526,145
4	Harry L. and Eva J. Puksta Foundation	91	$349,475	$146,992	$496,467
5	North Side High School Alumni Association Scholarship Foundation	86	$71,591	$48,088	$119,679
6	Colorado I Have a Dream Foundation	83	$135,596	$75,090	$210,686
7	Access Opportunity	44	$79,395	$79,247	$158,643
8	Colorado UpLift	42	$57,100	$45,060	$102,160
9	Greenhouse Scholars	39	$103,835	$83,835	$187,669
10	Evans Scholars Foundation	24	$155,914	$51,026	$206,940
11	Minds Matter Colorado	24	$28,313	$0	$28,313
12	Denver Kids Inc.	22	$5,063	$5,063	$10,125
13	Save Our Youth	19	$35,845	$13,755	$49,599
14	Girls Inc. of Metro Denver	17	$41,073	$11,602	$52,675
15	Mile High 360	14	$12,778	$12,778	$25,555
TOTAL ACROSS 35 SUPPORTED ORGANIZATIONS		**7,523**	**$15,318,224**	**$5,566,396**	**$20,884,618**

Note: *The data is ranked by the number of scholarships reimbursed. Data in this table includes all approved reimbursement requests from the 2018-19 school year through the 2021-22 school year, as of the fall 2022 reimbursement period. As of mid-May 2023, data for the entire 2021-22 school year data was not yet finalized.*

Source: *Auditor's Office analysis based on data provided by Prosperity Denver Fund.*

These are the two additional supported organizations we learned about during this audit:

- **HARRY L. AND EVA J. PUKSTA FOUNDATION** – This foundation provides scholarships and supports students who are actively engaged in helping the community. Each student also receives mentoring from an assigned coordinator.
- **MINDS MATTER COLORADO** – This organization works with high school students in grades 10 through 12. As part of the support it offers, it gives scholarships to help students close the gap in paying for a post-secondary education. The organization also connects high school students with mentors to prepare them for college and sends them to summer programs on college campuses before their junior and senior years.

Appendix D – How Prosperity Denver Fund qualifies and reimburses supported organizations

Because Prosperity Denver Fund offers only reimbursements using the city's designated tax dollars, supported organizations must first raise their own money to front the cost of the scholarships or support services until they can become qualified and receive reimbursement from the Denver College Affordability Fund. They must also raise enough to cover the balance of the costs that are not reimbursable — which are about 25%-30% of the cost of scholarships and could be even more for support services.

Once supported organizations become aware of Prosperity Denver Fund, they can contact the nonprofit to learn how to qualify for reimbursement. They must complete an application from Prosperity Denver's website.

Prosperity Denver then determines whether the supported organization qualifies based on the requirements in city ordinance as described in the background of this report. To remain eligible for reimbursement, each supported organization is required to sign an annual agreement with Prosperity Denver.

Once qualified, a supported organization can submit reimbursement requests for all eligible students it provided scholarships and support services to in the prior school year. The request form for scholarships is an Excel spreadsheet that has separate lists for previously qualified students and new students. The supported organization also submits a separate reimbursement request spreadsheet for any support services it provided to help a student work toward graduating from a post-secondary institution.

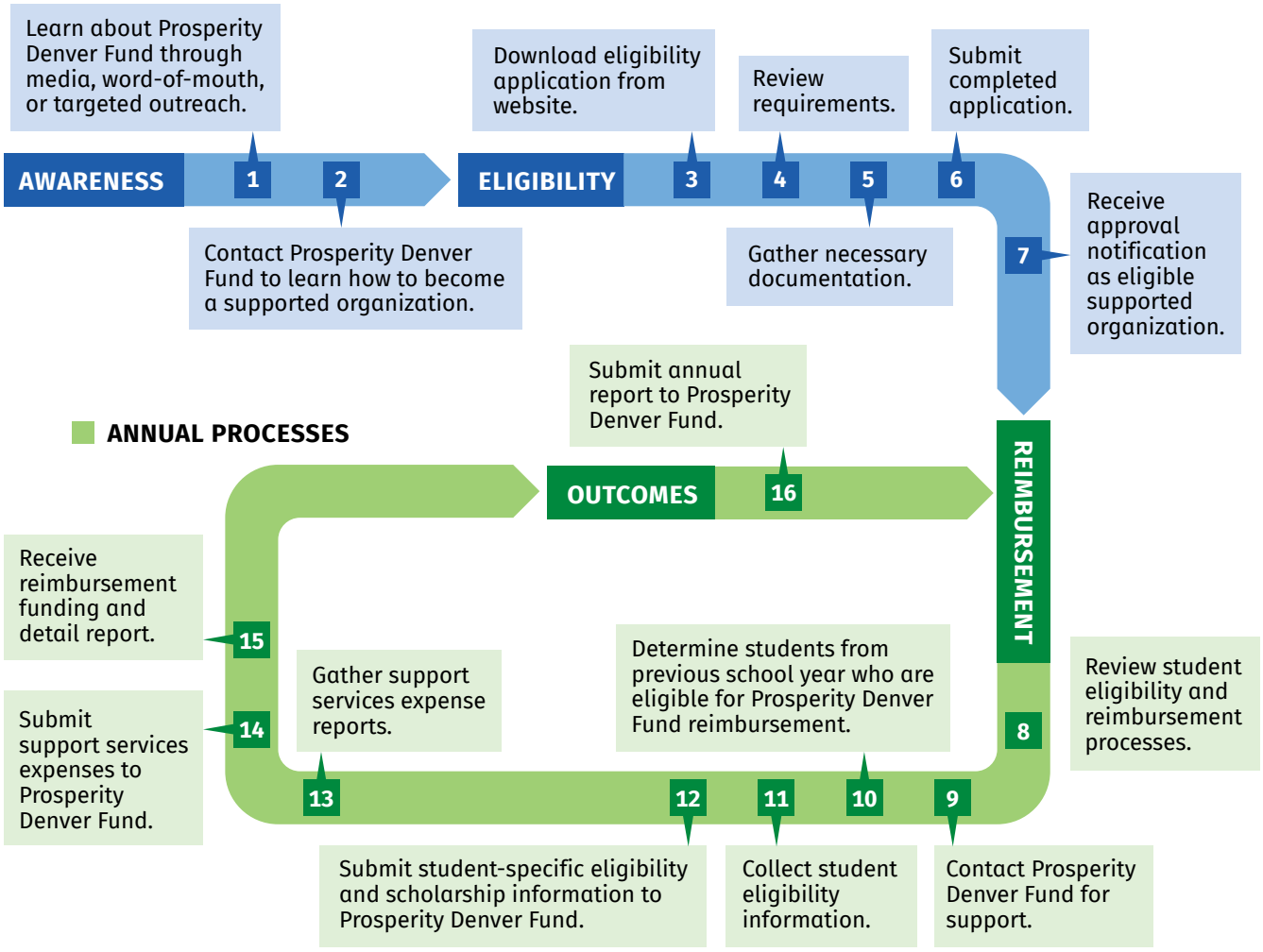
Prosperity Denver's third-party consultant compiles and reviews all reimbursement requests and marks which students appear to be eligible based on the data provided by the supported organization. If data is missing or student eligibility is questionable, Prosperity Denver or its consultant reach out to the supported organization for answers.

As discussed in the findings, neither Prosperity Denver nor its consultant investigates the information in the spreadsheets in more depth, such as by requesting and consulting source documentation.

Prosperity Denver reimburses supported organizations for their approved reimbursements twice a year, as required by city ordinance — once in fall and once in spring. For example, in fall 2021 and spring 2022, Prosperity Denver reimbursed for the 2020-21 school year.

Figure 7 on the next page summarizes the process of how supported organizations are reimbursed.

FIGURE 7. How supported organizations receive reimbursements



Source: *Auditor's Office illustration based on information from Prosperity Denver's consultant.*

Office of the Auditor

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