State of Colorado
Office of the State Auditor

Performance Audit of the Implementation of the College Opportunity Fund Program

Department of Higher Education

June 2012

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June 28, 2012

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the implementation of the College Opportunity Fund Program at the Department of Higher Education. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The State Auditor contracted with Sjoberg Evashenk Consulting, Inc., to conduct this audit. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Higher Education.

Respectfully submitted,

Marianne P. Evashenk

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President

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Glossary of Terms and Abbreviations

COF – College Opportunity Fund Program

Commission – Colorado Commission on Higher Education

CPI – Consumer price index

Department – Colorado Department of Higher Education

FTE – Full-time equivalent

SURDS – Student Unit Record Data System

TABOR – Taxpayer's Bill of Rights

PERFORMANCE AUDIT OF THE IMPLEMENTATION OF THE COLLEGE OPPORTUNITY FUND PROGRAM

June 2012

Department of Higher Education

Report Highlights

AUDIT PURPOSE

Review the implementation of the College Opportunity Fund (COF) Program within the Department of Higher Education.

BACKGROUND

Senate Bill 04-189 created the COF Program, making two significant changes to public higher education:

- Beginning in Fiscal Year 2006, tuition stipends and fee-for-service contracts shifted state support from funding institutions to funding students and educational services.
- Performance contracts with institutions were implemented to enhance accountability.

OUR RECOMMENDATIONS

The Department of Higher Education should:

- Submit budget requests that reflect stipend amounts that keep pace with inflation and enrollment, as required by statute, and devise a more precise method for determining fee-for-service contract funding amounts to include in budget requests.
- Develop a risk-based monitoring process to ensure stipends are paid on behalf of eligible students.
- Update policies and guidance for institutions to follow when issuing waivers of statutory stipend limits.
- Improve performance contracts by creating measurable and meaningful goals, and monitoring institutional performance in a timely manner.

The Department partially agreed with these recommendations.

EVALUATION CONCERN

The Department of Higher Education should make improvements to the College Opportunity Fund (COF) Program with respect to processes for requesting Program funding, administering stipends, and administering and monitoring performance contracts, that would help ensure the program meets statutory intent.

KEY FACTS AND FINDINGS

- Between Fiscal Years 2006 and 2011, the Department did not consistently request that stipend appropriations reflect inflation and enrollment growth, as required by statute.
- The shift in the funding mechanism for higher education has not been fully implemented. Institutions do not receive more COF Program funding when student enrollment increases in a given year, nor do institutions receive less funding when enrollment is lower than anticipated.
- A review of documentation for a sample of 50 students who received COF stipends identified three students who appear to be ineligible for stipends; records for 27 additional students were insufficient to determine whether they were eligible. Statute specifies that only students who are designated as Colorado residents for tuition purposes may receive COF Program tuition stipends.
- A review of 30 institutional waivers identified six that may have exceeded the one-year limit. Statute limits the number of credit hours for which students may receive a stipend to 145 hours in their lifetime, but allows institutions to grant one-year waivers of this limit in certain circumstances.
- Goals contained in the performance contracts we reviewed were not always clearly defined, measurable, or meaningful, and some performance data reported to the Department by institutions has not always been reliable. Performance contracts can enhance institutional accountability by setting goals and requiring public reporting of performance statistics.

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RECOMMENDATION LOCATOR
Agency Addressed: Department of Higher Education

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	23	Improve processes for determining and recommending to the General Assembly the funding needed for stipends and fee-for-service contracts by: (a) preparing and submitting annual budget requests that reflect stipend amounts that keep pace with inflation and enrollment growth, as required by statute; (b) implementing a more precise process for determining fee-for-service contract funding to better reflect the services institutions provide; and (c) exploring the feasibility of an annual budgetary adjustment to governing boards' appropriations that would better reflect enrollment and the costs of services provided through fee-for-service contracts.	Agree	a. November 2012 b. December 2012 c. December 2012
2	31	Ensure stipends are paid to eligible students for eligible courses by: (a) developing risk-based processes to monitor the eligibility of students to ensure statutory compliance, and (b) following up to ensure problems identified in risk-based reviews are corrected, seeking reimbursement from institutions for unallowable stipends paid, and investigating the 30 student stipends and 6 institutional waivers identified as questionable in the audit.	Agree	a. February 2013 b. February 2013
3	36	Ensure the use of waivers of the stipend limit do not inhibit the College Opportunity Fund Program's ability to achieve the goals of encouraging timely graduation and distributing stipend dollars equitably to eligible students by: (a) developing written policies defining "one-year" waivers, and (b) providing institutions updated written guidance that reflects the definition of "one-year" waivers and helps provide greater consistency in institutions' waiver application processes, including encouraging more deliberative processes for issuing waivers.	a. Agree b. Partially Agree	a. February 2013 b. February 2013
4	44	Improve the effectiveness of performance contracts by: (a) implementing policies and guidance for the Department and institutions to follow when developing contract goals; (b) coordinating with institutions to establish goals that are clearly defined, measurable, and meaningful; (c) implementing policies and procedures for more timely monitoring of institutional compliance with performance contracts; and (d) ensuring the data used to measure institutional performance is verified for accuracy.	Agree	a. September 2012 b. December 2012 c. December 2013 d. December 2012

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Overview
Chapter 1

In Colorado, the Commission on Higher Education (Commission) sets statewide policy for higher education to which institutions must adhere. As the Commission's administrative arm, the Department of Higher Education (Department) is responsible for carrying out the policies of the Commission as well as implementing the laws passed by the General Assembly. State public institutions of higher education, including four-year institutions as well as community colleges, are overseen by governing boards. Members of the governing boards are appointed by the Governor except for the Regents of the University of Colorado, who are elected. Most governing boards oversee a single institution; three, however, oversee multiple institutions—the Colorado State University System, University of Colorado System, and Colorado Community College System. In Fiscal Year 2012, there were 10 governing boards that oversaw 25 state public institutions in Colorado, as shown in Table 1.

Table 1. Colorado's Governing Boards and their State Institutions of Higher Education, Fiscal Year 2012

Governing Board	State Institutions Overseen by Each Governing Board[1]
1. Board of Governors of the Colorado State University System (Colorado State University System)[2]	Colorado State University; and Colorado State University-Pueblo
2. Regents of the University of Colorado (University of Colorado System)[2]	University of Colorado at Boulder; University of Colorado at Colorado Springs; and University of Colorado at Denver
3. State Board for Community Colleges and Occupational Education (Colorado Community College System)[3]	Arapahoe Community College; Colorado Northwestern Community College; Community College of Aurora; Community College of Denver; Front Range Community College; Lamar Community College; Morgan Community College; Northeastern Junior College; Otero Junior College; Pikes Peak Community College; Pueblo Community College; Red Rocks Community College; Trinidad State Junior College
4. Trustees of Adams State College[2]	Adams State College
5. Trustees of the Colorado School of Mines[2]	Colorado School of Mines
6. Trustees of Fort Lewis College[2]	Fort Lewis College
7. Trustees of Colorado Mesa University[2]	Colorado Mesa University[4]
8. Trustees of Metropolitan State College of Denver[2]	Metropolitan State College of Denver
9. Trustees of Western State College[2]	Western State College
10. University of Northern Colorado[2]	University of Northern Colorado

Source: The Commission on Higher Education website, June 2012.
[1] Does not include Aims Community College and Colorado Mountain College, which are local district junior colleges, nor does it include area vocational schools.
[2] Oversees four-year colleges and universities.
[3] Oversees two-year institutions and community colleges.
[4] This institution was known as Mesa State College until 2011.

Changes to Higher Education Funding

In January 2003, the Governor's *Blue Ribbon Panel on Higher Education for the 21st Century* (Blue Ribbon Panel) found that "a substantial number of Coloradans were not participating in or benefiting from the State's higher education system." According to the Blue Ribbon Panel, from 1990 to 2000, the State's population increased about 30 percent yet public higher education undergraduate enrollment grew about 7 percent between 1991 and 2001. The Panel also found that "public institutions of higher education were not fully benefiting from the [State's] funding structure." At the time, Colorado directly supported higher education by appropriating General Fund dollars to the governing boards that oversee the State's higher education systems or institutions; and the Taxpayers Bill of Rights (TABOR) restricted government spending, including tuition increases. The Blue Ribbon Panel noted that while enrollment grew between 1991 and 2001, higher education's share of the State's General Fund budget declined about 5 percent and TABOR limited institutions' ability to raise tuition. The Blue Ribbon Panel made recommendations to the Governor and the General Assembly that Colorado should: (1) directly fund students rather than funding institutions by implementing educational stipends for Coloradans; (2) create block grants for higher education programs and services not covered by the stipends; and (3) develop a quality indicator system to measure institutions' performance related to student retention and graduation. The creation of new methods of funding higher education was expected to exempt some institutions from TABOR restrictions. To implement recommendations of the Blue Ribbon Panel, during the 2004 legislative session, the Colorado General Assembly passed Senate Bill 04-189, which made the following two main statutory changes to the funding structure for Colorado higher education:

1. **Tuition Stipends and Fee-For-Service Contracts.** Senate Bill 04-189 created the College Opportunity Fund (COF) Program consisting of two new funding mechanisms for higher education in the State: tuition stipends for eligible students and fee-for-service contracts. First, the Bill established the COF Trust Fund [Sections 23-18-201 and 23-18-202, C.R.S.] as a funding source for stipends that undergraduate students can claim as a means to reduce tuition costs. Second, the bill required the Department to enter into fee-for-service contracts with each participating governing board to fund educational services, such as services in rural areas or communities, graduate school services, and services that may increase economic development opportunities in the State [Section 23-1-109.7, C.R.S.]. COF stipends and fee-for-service contracts were both implemented in Fiscal Year 2006. The General Assembly annually appropriates specific amounts for COF stipends and fee-for-service contracts to each governing board under the COF Program. Statute [Section 23-18-202(9), C.R.S.] states that it is the intent that COF stipends and fee-for-service contracts be fully funded to account for enrollment growth. According to the Department, Colorado is the only state in the nation that funds higher education in this manner.

2. **Performance Contracts.** Senate Bill 04-189 required state public institutions of higher education, and private institutions that participate in the stipend portion of the COF Program, to enter into performance contracts with the Department. Performance contracts are intended to produce more accessible, efficient, and effective higher education in Colorado. Statute requires performance contracts to set forth goals that "are measurable and tailored to the role and mission of each institution ..." [Section 23-5-129(2)(c), C.R.S.]. Such goals may include improving access of Colorado residents to higher education, the efficiency of institutions' operations, and retention and graduation rates. Statute also requires each performance contract to address goals for increasing enrollment of underserved students, including low-income individuals, males, and minority groups [Section 23-5-129(2), C.R.S.]. Performance contracts are not tied directly to institutional funding. However, according to the Department, an institution must operate under a performance contract in order to be eligible to receive funding under a COF fee-for-service contract. The Department has executed performance contracts with each

governing board that participates in the COF Program. Performance contracts are discussed further in Recommendation 4.

TABOR-Exempt Enterprise Status. Senate Bill 04-189 also allowed governing boards to pass resolutions to designate their respective higher education institution(s) as enterprises under Article X, Section 20 of the Colorado Constitution (Taxpayer's Bill of Rights or TABOR) beginning in Fiscal Year 2005 [Section 23-5-101.7, C.R.S.]. To qualify as an enterprise, an entity must be a government-owned business authorized to issue its own revenue bonds and receive less than 10 percent of its annual revenue from Colorado state and local governments. Institutions designated as enterprises are exempt from the revenue growth and spending limitations of TABOR. Each of the 10 governing boards overseeing state public institutions of higher education have elected to participate in the COF Program and designated their respective institutions as TABOR-exempt enterprises because most of their revenue is provided through tuition, stipends, and other sources that are not directly from the state and local governments.

Purpose and Intent of Senate Bill 04-189

According to the legislative declaration set forth in Senate Bill 04-189, the changes to higher education funding and the establishment of the COF Program were designed to achieve a number of purposes, including:

1. **Increasing Access to Public Higher Education for Coloradans and Under-Represented Groups.** Senate Bill 04-189 specified: "For the future of the state of Colorado . . . it is imperative that an increased number of Coloradans pursue education beyond high school; in particular, it is critical that the rate of postsecondary participation by low-income Coloradans, males, and minorities, who are currently under-represented, be increased at every Colorado state institution of higher education" [Senate Bill 04-189 (1)]. According to the Bill, changing the method through which the State supports public institutions of higher education would provide "[g]reater resource flexibility for institutions [which] can enhance more educational opportunities for low-income and other under-represented students, as well as increase educational excellence" [Senate Bill 04-189 (4)].

2. **Increasing Competition and Quality Throughout Public Institutions.** Senate Bill 04-189 specified: "It is the intent of the general assembly in enacting this act to fundamentally change the process by which the state finances postsecondary education from funding institutions to funding individuals" [Senate Bill 04-189 (6)], and "[f]unding students can have the impact of strengthening competition among institutions which in turn can lead to improved quality" [Senate Bill 04-189 (4)].

3. **Increasing Accountability for Public Institutions of Higher Education.** Senate Bill 04-189 specified: "Performance contracts should provide for

greater flexibility and a more focused accountability for institutions to students and the people of Colorado" [Senate Bill 04-189 (5)].

Senate Bill 04-189 also stated that it was not the intent that the changes in funding would cause the closure of any institution and that funding for higher education is not an entitlement. According to the Bill, during periods of revenue shortfalls, the State could reduce appropriations to the governing boards, decrease the value of the stipend, or limit the number of stipends funded in order to balance the State's budget [Senate Bill 04-189 (10)]. As we discuss in Chapter 2, the national economic crisis and declines in State revenues between Fiscal Years 2008 and 2012 created practical barriers to the full implementation of the COF Program as intended by Senate Bill 04-189.

College Opportunity Fund Program

COF Program participation is not mandatory, however, each of the 10 state governing boards, which oversee a total of 25 state public institutions, have elected to participate in the Program. The 10 participating governing boards are listed in Table 1. Not-for-profit private institutions of higher education may also participate in the stipend portion of the COF Program [Sections 23-18-102 and 23-18-201, C.R.S.]. Currently, three private institutions—the University of Denver, Regis University, and Colorado Christian University—participate in the COF Program. The two funding components of the COF Program, stipends and fee-for-service contracts, are described below.

COF Stipends

Stipend payments are made to institutions on behalf of students who have been approved to participate in the COF Program. Stipends may be used for eligible undergraduate courses taken at the institutions of higher education participating in the COF Program. The concept behind the stipend was that it would inject market forces into the funding and operations of institutions of higher education [Senate Bill 04-189 (4)]. Students would be more aware that they were the beneficiaries of state funding and this awareness would inform their decisions as to their choice of schools and their academic plans. Students would "vote with their feet" when choosing institutions.

Student Eligibility. To receive COF stipends, students attending participating state public institutions must be Colorado residents [Section 23-18-102(5)(a)(I), C.R.S.]. Students attending participating private institutions must be Colorado residents and graduates of a Colorado high school; must have a demonstrated financial need determined by eligibility for the Federal Pell grant or a successor program; and cannot be pursuing a degree in theology [Section 23-18-102(5)(a)(II), C.R.S.].

Course Eligibility. Students receiving tuition stipends may not use them for certain types of courses such as international baccalaureate courses; advanced placement courses; and off-campus, extended campus, or continuing education classes [Section 23-18-202(5)(d)(I), C.R.S.].

Stipend Amount. In 2003, the Blue Ribbon Panel recommended undergraduate students receive stipends at $133 per credit hour or about $4,000 per year for a full-time student taking 30-credit hours annually. The Department annually requests a fixed stipend amount per credit hour and the General Assembly sets the stipend amount annually during the budget process. The stipend amount is the same for all students attending participating state institutions; students attending participating private institutions receive one-half of the established per credit hour stipend [Section 23-18-202(2)(b) and (e), C.R.S.]. Statute allows the stipend amount to vary from year to year based on the availability of state funds and allows the State to reduce the stipend amount mid-year [Section 23-18-202(4), C.R.S.]. Mid-year reductions occurred in Fiscal Years 2009 and 2010 due to the economic downturn. Table 2 shows the number of students attending state public institutions in Colorado who received COF stipends and the annual stipend amount awarded per full-time student in Fiscal Years 2006 through 2012.

Table 2. Student Utilization of COF Program Stipends and Stipend Amounts, State Institutions of Higher Education, Fiscal Years 2006 to 2012

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012[6]**	**Percent Change**
Total Students Enrolled in COF[1]	187,897	193,573	197,919	206,976	224,526	229,750	225,121	20%
Total Student[1] FTE[2] Enrolled in COF	115,503	121,375	123,027	127,885	139,448	142,763	129,472	12%
Annual Stipend Per Student FTE[2]	$2,400	$2,580	$2,670	$2,040	$1,320	$1,860	$1,860	-23%
Annual Stipend Per Credit Hour[3]	$80	$86	$89	$68[4]	$44[5]	$62	$62	-23%

Source: Data provided by the Department of Higher Education.

1 Includes students from all state public institutions participating in the COF Program.

2 A full-time equivalent (FTE) is calculated on the basis of 30 credit hours per student.

3 During Fiscal Years 2009, 2010, and 2011, the Annual Stipend Per Credit Hour was lower compared to prior years because, according to the Department, the State appropriated federal funds from the American Recovery and Reinvestment Act (Federal Recovery Funds) to the governing boards in order to balance the State's budget and sustain funding for higher education. Funding for the State's higher education institutions is shown in Table 3.

4 The Fiscal Year 2009 Stipend Per Credit Hour was originally $92 and was reduced to $68 in May 2009.

5 The Fiscal Year 2010 Stipend Per Credit Hour was originally $68 and was reduced to $44 in March 2010.

6 Enrollment data for Fiscal Year 2012 is as of June 2012; final enrollment data for the fiscal year had not been reported or reconciled as of June 2012.

The Department remits stipend payments directly to institutions on behalf of students and the stipend amount is applied to a student's tuition bill. If a student believes he or she did not receive the correct stipend amount, the student may file an appeal with the Department after the student has tried to resolve the issue with his or her respective institution. Stipends are discussed further in Recommendations 1 and 2.

Stipend Credit Hour Limits and Waivers. Statute limits the number of stipend payments each student may receive in two ways. First, an undergraduate student may not receive stipend payments for more than 145 credit hours in his or her lifetime when pursuing a baccalaureate degree. According to the Department, the 145 credit hour limit was intended to encourage full-time students to complete their degrees within a reasonable amount of credit hours and years, as well as to control COF Program costs. Second, students who receive COF stipends for 145 credit hours and complete their degree may receive up to 30 additional credit hours for undergraduate courses [Section 23-18-202(5)(c)(1)(a), C.R.S.], such as those related to continued education, job training, and teaching certificate requirements.

If a student reaches the 145 credit hour limit prior to completing his or her degree, statute allows students attending public institutions to receive two types of waivers of the limit, those issued by public institutions (referred to as institutional waivers) [Section 23-18-202(5)(f), C.R.S.] and those issued by the Commission (referred to as Commission waivers) [Section 23-18-202(5)(e), C.R.S.]. Department policy requires students to apply for a waiver at their institution before applying to the Commission. Between Fiscal Years 2006 and 2011, about 4,300 students received institutional waivers and about 120 students received Commission waivers. Waivers are discussed further in Recommendations 2 and 3.

COF Fee-for-Service Contracts

The concept of fee-for-service contracts was established by statute to fund higher education services not funded through COF stipends [Section 23-5-130, C.R.S.]. Fee-for-service contracts are intended to ensure institutions of higher education provide "specified educational services and facilities required for the full development of Colorado's educational and economic opportunities" [Senate Bill 04-189]. Per statute [Section 23-5-130, C.R.S.], fee-for-service contracts may be used to purchase services meeting one of the following criteria:

- Educational services in rural areas or communities in which the cost of delivering the services is not sustained by the amount received in student tuition.
- Educational services required by the Commission to meet its obligations under reciprocal agreements with other states to waive nonresident tuition.
- Graduate school services.
- Educational services that may increase economic development opportunities in the State, including courses to assist students in career development and retraining.

- Specialized education and professional degrees including, but not limited to, the areas of dentistry, medicine, veterinary medicine, nursing, law, forestry, and engineering.

The Department executed fee-for-service contracts with each of the public governing boards participating in the COF Program; the contracts took effect in Fiscal Year 2006 and were amended on an annual basis to reflect changes in fee-for-service funding allocations.

Program Administration

The COF Program is overseen by the Commission through the Department, its administrative arm. The Commission comprises 11 members appointed by the Governor and confirmed by the Senate [Section 23-1-102(3)(a), C.R.S.]. As a policy-making and coordinating board, the Commission sets policy and provides direction to the Department. Both the Commission and the Department are responsible for implementing the laws of the General Assembly, and the Department is responsible for implementing Commission policies [Section 23-1-101, C.R.S.]. The Department's responsibilities with respect to the COF Program include the following: submitting annual appropriation requests for stipends and fee-for-service contracts to the General Assembly; processing students' COF stipend applications based on eligibility determinations made by institutions; disbursing stipend payments to institutions on behalf of eligible students; administering Commission waivers; publicizing the COF Program; maintaining a database of student information; and establishing COF Program policies and guidelines, with Commission oversight.

COF Program Funding

Similar to the higher education funding model prior to Fiscal Year 2006, the amount of State support provided to each institution is decided through a legislative budgeting process based on the State's fiscal capacity to fund higher education. The Department prepares an annual budget request that includes allocations for stipends (based on estimated enrollment figures) and fee-for-service contracts for each governing board. The General Assembly appropriates funds to the Department each year and authorizes spending authority for each governing board [Section 23-18-202(3)(a), C.R.S.]. As such, the governing boards are authorized to allocate funding among their respective institutions as the boards deem fit.

During the early years of the COF Program, total State operating funding for public higher education governing boards fluctuated, hitting a high of about $628 million in Fiscal Year 2008 and a low of $312 million in Fiscal Year 2010, which affected the funding available for COF Program stipends and fee-for-service contracts. In Fiscal Years 2009 through 2011, the COF Program and public governing boards received federal funds from the American Recovery and Reinvestment Act (Federal Recovery Funds) to help offset the declines in State funding. In Fiscal Year 2011, total State funding for public higher education was about $654 million, of which the General Assembly appropriated about $593 million to the COF Program. Table 3 shows COF Program funding and the revenue sources for the state public institutions participating in the COF Program in Fiscal Years 2006 through 2011.

Table 3. Revenues for the State Institutions of Higher Education[1] Participating in the COF Program, Fiscal Years 2006 to 2011 (In Millions)

	2006	2007	2008	2009	2010	2011	Percent Change
State Support							
COF Program General Funds							
Stipends	$272	$319	$327	$262	$176	$269	-1%
Fee-for-Service Contracts	$262	$260	$301	$272	$136	$324	24%
COF Program Total	$534	$579	$628	$534	$312	$593	11%
Other General Funds[2]	$24	$24	$4	$4	$4	$6	-75%
Cash Funds[3]	$21	$56	$106	$147	$80	$55	162%
Total State Support	**$579**	**$659**	**$738**	**$685**	**$396**	**$654**	**13%**
Federal Recovery Funds[4]	**--**	**--**	**--**	**$145**	**$368**	**$28**	**--**
Other Institution Revenue[5]	**$3,026**	**$3,233**	**$3,384**	**$3,545**	**$4,266**	**$4,384**	**45%**
Total Revenue	**$3,605**	**$3,892**	**$4,122**	**$4,375**	**$5,030**	**$5,066**	**41%**

Source: Department of Higher Education data and Office of the State Auditor TABOR Enterprise Memos.
[1] Includes only revenues for the State's public governing boards that have participated in the COF Program. Does not include COF Program funding for private institutions.
[2] In Fiscal Years 2006 and 2007, General Fund appropriations were made to the Colorado Community College System (the CCC System) for programs primarily related to the Colorado Vocational Act; these funds were appropriated through the CCC System's fee-for-service contract beginning in Fiscal Year 2008. In Fiscal Years 2008 through 2011, General Fund appropriations were made to the CCC System primarily for Colorado First Customized Job Training. In Fiscal Year 2011, the Colorado State University System also received appropriations for programs related to forest restoration and vitality.
[3] Cash funds include capital contributions and cash fund appropriations for various special projects and funds, such as the Wildfire Preparedness Fund and the Tobacco Litigation Settlement Health Education Fund.
[4] In Fiscal Years 2009, 2010, and 2011, the State appropriated federal funds from the American Recovery and Reinvestment Act (Federal Recovery Funds) to the public governing boards.
[5] Includes tuition, fees, grants, income from revenue bonds, and all other non-state and non-Federal Recovery Fund revenue.

Audit Scope and Methodology

The Colorado Office of the State Auditor contracted with Sjoberg Evashenk Consulting, Inc., to conduct this performance audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. Audit work was performed from October 2011 through April 2012. We acknowledge and appreciate the cooperation and assistance provided by Department management, as well as representatives of the Commission and institutions of higher education, during the course of this audit.

The purpose of this audit was to review the performance of the Department in implementing the COF Program. Specifically, the audit objectives were to evaluate:

- Whether the structural components of the COF Program that are within the control of the Department and institutions of higher education sufficiently ensure the legislative intent of Senate Bill 04-189 and statute is met, given legislative and budget constraints.

- Whether the Department has adequate controls to ensure students who receive COF stipends are eligible and eligible students receive accurate stipends in a timely manner.

- Whether Department contract management practices for performance contracts and fee-for-service contracts are sufficient to ensure institutions of higher education comply with applicable state statutes, rules, regulations, and legislative intent.

To accomplish the audit objectives, we conducted the following audit work:

- Reviewed statute [Title 23, C.R.S.], Senate Bill 04-189, Commission and Department policies, and other documentation related to the legislative intent of statutes and the responsibilities of the Commission, Department, and institutions of higher education in implementing the COF Program.

- Interviewed Department and Commission representatives, representatives of the Colorado Community College System, and a sample of six state institutions of higher education, including Colorado State University; Colorado State University, Pueblo; Colorado School of Mines; Community College of Aurora; Front Range Community College; and the University of Northern Colorado regarding the implementation of Senate Bill 04-189.

- Analyzed fiscal records and budget documents for Fiscal Years 2001 through 2012 to identify institutions' revenues and expenditures, historical student share of tuition, and stipend and fee-for-service funding.

- Analyzed Department database records for students participating in the COF Program between July 2006 and June 2011 to assess enrollment trends.

- Assessed Department practices to ensure proper stipend payments and credit hour limit waivers by testing a sample of 50 out of the nearly 600,000 students that received stipends since Fiscal Year 2006 to verify their eligibility; as well as testing 30 out of about 4,300 institutional waivers, 35 out of about 120 Commission waivers, and 30 out of the total 500 appeal requests since Fiscal Year 2006.

- Reviewed a sample of five of the 13 performance contracts, as well as Department processes for administering the contracts and monitoring compliance with statutory requirements and contractual provisions.

While the results of the sample testing cannot be projected to the entire population, the results provide a sufficient basis to assess the adequacy of the Department's internal controls as they pertain to the objectives of this audit. Details of the audit samples are discussed in the audit findings and recommendations.

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.

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Program Structure and Administration Chapter 2

When it enacted Senate Bill 04-189, the General Assembly intended to significantly revise the way the State funded higher education and encourage undergraduate resident access and enrollment. According to the Bill, the General Assembly intended to fundamentally change the process by which the State finances postsecondary education from funding institutions to funding students [Senate Bill 04-189]. The General Assembly also established three key statutory goals:

1. Increase access to public higher education, including enrollment among Coloradans and under-represented groups.

2. Increase competition and quality throughout public institutions.

3. Increase accountability for state public institutions of higher education.

To further the intent and goals of the General Assembly, Senate Bill 04-189 made three main statutory changes by establishing: (1) the College Opportunity Fund (COF) Program that provides tuition stipends to students and requires fee-for-service contracts with institutions; (2) performance contracts with institutions that include goals intended to make higher education more accessible, efficient, and effective; and (3) parameters for institutions' to become TABOR-exempt enterprises in order to have greater flexibility to increase spending and generate revenue. According to Senate Bill 04-189, the changes in funding were not intended to cause the closure of any institution, COF Program funding was not an entitlement, and the State could reduce appropriations to governing boards or the stipend amount during times of State revenue short falls.

Based on the most recent institutional performance data available at the Department, between Fiscal Years 2005 and 2010, Colorado's state public institutions experienced somewhat positive trends related to academic performance and enrollment. As illustrated in Table 4, since Fiscal Year 2005, state institutions improved two key indicators of academic success, retention and graduation rates, and experienced overall increases in enrollment among under-represented groups.

Table 4. Performance Indicators for State Higher Education Institutions in Colorado, Fiscal Years 2005 to 2010[1]

	2005	2006[2]	2007	2008	2009	2010	Percent Change
Trends in Academic Achievement							
Average Undergraduate Retention Rate	67%	73%	70%	71%	71%	71%	4%
Statewide Graduation Rate	48%	46%	49%	50%	49%	49%	1%
Enrollment Rates for Under-Represented Groups as a Percentage of Overall Enrollment							
Male Enrollment	44%	44%	44%	45%	44%	45%	1%
Minority Enrollment	21%	21%	22%	21%	22%	24%	2%
Low-Income Enrollment[3]	28%	27%	24%	24%	23%	31%	3%

Source: The Department of Higher Education's Fiscal Year 2013 Higher Education Strategic Plan and enrollment data.

[1] These are the most recent data available; the Department did not collect these data for Fiscal Years 2011 and 2012. Data reported by Department include resident and non-resident student enrollment.

[2] Senate Bill 04-189 and the COF Program were implemented in Fiscal Year 2006.

[3] Low-income enrollment figures are based on Federal Pell grant eligibility.

Although Table 4 shows that overall enrollment among underrepresented groups has increased somewhat, enrollment for some resident groups did not keep pace with their representative growth in Colorado's population. For example, males represented nearly 51 percent of Colorado's adult population (ages 18 to 61 years) in 2010, but represented about 45 percent of undergraduate resident student enrollment in the same year. During the past 10 years, undergraduate resident enrollment growth for three of the four ethnic minority groups determined to be under-represented (Black or African American, Asian, and Native American or Native Alaskan) outpaced their Colorado population growth, while Hispanic or Latino resident enrollment growth, which was about 30 percent, did not keep pace with their rate of population growth, which was 41 percent.

While Colorado has experienced generally positive trends in academic performance and enrollment since Fiscal Year 2006, economic conditions between Fiscal Years 2008 and 2011 created some barriers to implementing the COF Program as intended. In particular, the decline in State revenues to support higher education limited the State's ability to fund the COF Program at the level originally anticipated when Senate Bill 04-189 passed and to increase stipend funding at a pace equivalent to enrollment growth and inflation. Aside from the general economic challenges, we found areas in which the Department of Higher Education (Department) could make improvements to further support the original intent of the COF Program. These improvements relate to: (1) improving the process for determining and communicating to the General Assembly the full funding needed for the COF Program, including funding that would keep pace with enrollment growth and inflation; (2) ensuring COF stipends are only paid to institutions for eligible students, credit hours, and courses; (3) improving policies and guidance provided to institutions for administering waivers of statutory stipend limits; and (4) improving performance contracts to better promote institution accountability. The remainder of this report focuses on our findings and recommendations relating to each of these areas.

Stipend and Fee-for-Service Funding

The COF Program was designed to provide stipends to undergraduate students to help offset their tuition costs; target State funding to Colorado residents, particularly those underrepresented in higher education; encourage enrollment and accessibility to postsecondary education; and better inform Coloradans of the financial support afforded by the State for higher education [Senate Bill 04-189]. Prior to each fiscal year, the Department requests and the General Assembly approves stipend and fee-for-service appropriations for each governing board. Between Fiscal Years 2006 and 2011, the COF Program received an average of about $271 million in annual funding for stipends, or an average of about $72 per credit hour in stipends for students participating in the Program, and an average of about $259 million in annual funding for governing boards' fee-for-service contracts.

What audit work was performed and what was the purpose?

The purpose of the audit work was to determine whether the COF Program has been implemented in a manner that meets the legislative intent of Senate Bill 04-189 and statute. Specifically, we:

- Reviewed documentation expressing legislative intent behind the COF Program including Senate Bill 04-189, statute [Section 23-18-101, et seq., C.R.S.], policies developed by the Colorado Commission on Higher Education (the Commission) and the Department, and the 2003 *Governor's Blue Ribbon Panel on Higher Education for the 21st Century*.

- Observed key processes and interviewed representatives from the Colorado Community College System, and a sample of six state institutions of higher education, including community colleges and four-year institutions as well as rural and urban institutions, regarding the Department's implementation of the COF Program.

- Compared actual annual stipend funding received by institutions in the COF Program to funding estimates adjusted to reflect inflation and enrollment growth by reviewing the national consumer price index (CPI) and historical inflation rates from Calendar Years 2005 through 2010, and analyzing documentation supporting undergraduate resident full-time equivalent (FTE) student enrollment from Fiscal Years 2006 through 2011.

- Evaluated the Department's process for determining the costs associated with fee-for-service contracts and recommending the amount of funding needed to the General Assembly.

How were the results of the audit work measured?

We measured the Department's implementation of the COF Program against the following stated legislative goals and requirements:

- **To Provide Stipend Funding that Keeps Pace with Enrollment Growth and Inflation.** Statute indicates that it was the intent of the General Assembly that stipends grow along with enrollment and inflation. First, statute states that the General Assembly intended to fully fund the College Opportunity Fund, and therefore stipends and fee-for-service contracts, for enrollment growth [Section 23-18-202(9), C.R.S.]. Second, statute requires the Commission to annually request that the General Assembly adjust the amount appropriated to the COF Program for stipends to reflect at least inflation and enrollment growth at state institutions [Section 23-18-202(2)(c), C.R.S.]. The Department submits these annual requests to the General Assembly on behalf of the Commission.

- **To Fund Students Rather Than Institutions.** Senate Bill 04-189 states the intent to fund students rather than institutions. Further, the Bill states that funding students can strengthen competition among institutions and improve service quality [Senate Bill 04-189]. Statute specifies that after an undergraduate student has been approved for the COF Program and enrolled in a participating institution, the Department will make a stipend payment from the College Opportunity Fund to the institution on behalf of the student [Section 23-18-202(5)(a), C.R.S.].

- **To Develop Funding Recommendations for Fee-For-Service Contracts.** Statute states that the Department, on behalf of the Commission, shall annually enter into fee-for-service contracts with the governing boards to provide higher education services [Section 23-1-109.7(2), C.R.S.]. The Department also makes annual funding recommendations to the General Assembly and the Governor regarding the fee-for-service funding necessary for the provision of higher education services by state institutions [Section 23-1-109.7(3), C.R.S.].

What did the audit work find?

We identified three concerns:

- **The Stipend Amount Has Not Kept Pace with Inflation and Enrollment Growth.** If the stipend amount had kept pace with inflation each year as intended by statute, we would expect the per-hour stipend amount to increase at about the rate of the consumer price index, as shown in Table 5. If the stipend amount had kept pace with enrollment growth as intended by statute [Section 23-18-202, C.R.S.], we would expect the total stipend appropriation to have grown at the rate of enrollment growth among Colorado undergraduate students participating in the COF Program between 2006 and 2011, as shown in Table 6. While, the Department's process for determining the annual amount of stipend funding to request each year accounts for some changes in enrollment in prior years, we found that in most years that the COF Program has been in place, the stipend amount did not keep pace with either enrollment growth or inflation. Both the per-hour stipend amount and total stipend funding decreased between 2006 and 2011, while both inflation and enrollment grew. As discussed later, a primary reason for the decrease in funding was a decline in State revenues and funding available for the COF Program.

As shown in Table 5, stipends have fluctuated and ultimately declined significantly from $80 to $62 per credit hour, or about 23 percent between Fiscal Years 2006 and 2011. If stipends had kept pace with the overall rate of inflation, the table shows stipends would have increased approximately 13.4 percent over the same period.

Table 5. Historical Stipend Amount v. Estimated Stipend Reflecting Inflation, Fiscal Years 2006 to 2011

	2006	2007	2008	2009[1]	2010[1]	2011	Percent Change
Stipend Amount	$80	$86	$89	$68	$44	$62	-22.5%
Stipend Amount Projected to Keep Pace with Inflation	$80	$83	$85	$88	$91	$91	13.4%

Source: Department of Higher Education Memorandum August 29, 2011; and national consumer price index and historical inflation rates from Calendar Years 2005 through 2010.

[1] The State has the ability to reduce the stipend amount during the fiscal year if funds in the COF Trust Fund are insufficient to fund enrollment at the current stipend value. In Fiscal Years 2009 and 2010, the State was unable to fund the COF Trust Fund as initially appropriated due to lower than expected state revenues and the stipend amount was reduced mid-year, as noted in Table 2. During Fiscal Years 2009 through 2011, the State provided Federal Recovery Funds to the COF Program, as discussed in Chapter 1.

As Table 6 shows, total stipend funding decreased by 1 percent between 2006 and 2011, while student enrollment in the COF Program grew by 24 percent.

Table 6. COF Program Funding for Stipends (in Millions) and Full-Time Equivalent (FTE) Student Enrollment Growth, Fiscal Years 2006 to 2011[1]

	2006	2007	2008	2009	2010	2011	Percent Change
Stipend Funding (in Millions)	$272	$319	$327	$262	$176	$269	-1%
COF-Eligible FTE Enrollment	115,503	121,375	123,027	127,885	139,448	142,763	24%
Total COF Program Funding (in Millions)	$534	$579	$628	$534	$312	$593	11%

Source: Department of Higher Education budget requests and Comprehensive Annual Financial Report (CAFR) Fiscal Years 2006 to 2011.

[1] Enrollment figures and funding amounts represent those for public institutions only.

- **The Shift in the Funding Mechanism For Higher Education Has Not Been Fully Implemented.** The idea behind the COF Program was that institutions would receive more funding if they enrolled more students. However, under the current budgeting and funding process, institutions receive a total COF Program appropriation, regardless of changes in enrollment in a given year. Specifically, prior to each fiscal year, the General Assembly determines the total amount of COF Program funding. The Department submits budget requests to the General Assembly recommending the portion of total COF Program funding to be allocated for stipends based on institutions' estimated enrollment; the Department requests that the remaining funding available for the COF Program be allocated to fee-for-service contracts. The General Assembly appropriates stipend and fee-for-service funding to each governing board. At year-end, the Department requests and the General Assembly approves adjustments to the final actual COF Program funding for all governing boards to equal the amount of appropriated COF funding. As a result, governing boards receive the full amount of COF Program funding (stipend plus fee-for-service) appropriated, regardless of whether the governing boards' institutions experienced higher or lower enrollment than estimated. Table 7 shows the year-end adjustments for Fiscal Year 2011.

Table 7. Appropriations and Year-End Allocations of COF Program Funding for State Higher Education Institutions in Colorado, Fiscal Year 2011

Governing Board	Appropriations as of March 2011 (in Millions) Estimated FTE Enrolled[1]	Stipend	Fee-for-Service	Total	Year-End Allocations (in Millions) Actual FTE Enrolled[2]	Stipend	Fee-for-Service	Total	Change in Fee-for-Service[3]
Colorado Mesa Univ.[4]	5,357	$10	$11.4	$21.4	5,727	$10.7	$10.7	$21.4	-$0.7
Community College System	53,415	$99.3	$28.1	$127.4	56,201	$105.2	$22.2	$127.4	-$5.9
Fort Lewis College	2,281	$4.2	$6.4	$10.6	2,250	$4.3	$6.3	$10.6	-$0.1
Colorado State Univ. System	21,056	$39.2	$86.8	$126.0	20,729	$38.6	$87.4	$126.0	+$0.6
Adams State College	1,544	$2.9	$10.2	$13.1	1,494	$2.8	$10.3	$13.1	+$0.1
Metropolitan State College	17,955	$33.4	$9.3	$42.7	17,197	$33.0	$9.7	$42.7	+$0.4
Univ. of Northern Colorado	8,412	$15.6	$23.2	$38.8	8,082	$15.0	$23.8	$38.8	+$0.6
Colorado School of Mines	2,864	$5.3	$15.3	$20.6	2,733	$5.0	$15.6	$20.6	+$0.3
Western State College	1,381	$2.6	$8.2	$10.8	1,296	$2.4	$8.4	$10.8	+$0.2
Univ. of Colorado System	29,756	$55.3	$126.2	$181.5	27,054	$51.5	$130.0	$181.5	+$3.8
TOTAL	**144,021**	**$268**	**$325**	**$593**	**142,763**	**$269**	**$324**	**$593**	**-$1.0**

Source: The Department of Higher Education's funding analysis documents for Fiscal Years 2006 through 2011, House Bill 10-1376, Senate Bill 10-064, Senate Bill 11-140, Senate Bill 11-157, Senate Bill 11-209, House Bill 12-1335, and the Department's 1331 Emergency Supplemental Appropriations for Fiscal Year 2011.

[1] To determine the Estimated FTE Enrolled, the budgeted stipend amount was divided by $1,860, or the annual FTE stipend limit, which is based on a 30-credit hour FTE and a stipend amount of $62 per credit hour.

[2] Actual FTE Enrolled is based on the number of stipend credit hours paid to each institution divided by 30 full-time credit hours.

[3] Governing Boards with a negative change in fee-for-service funding had higher than estimated enrollment during the academic year and received less funding than was in their fee-for-service contract.

[4] This institution was known as Mesa State College until 2011.

As Table 7 shows, all governing boards ultimately received the total amount of COF funding appropriated as of March 2011, even though by June 2011 eight of the governing boards had fewer students eligible for COF stipends than estimated and two governing boards had more students eligible for COF stipends than estimated. As a result of the year-end adjustments, the institutions that increase student enrollment during the academic year are, in essence, penalized when their fee-for-service contract amounts are reduced and a portion of the services they had provided under their contracts become unfunded. According to the Department, the Governor's Office of State Planning and Budgeting directed the Department to take the approach to adjust stipend and fee-for-service funding to give governing boards the full amount appropriated, at least in some years, to help ensure total institution funding was not adversely impacted by changes in enrollment during the academic-year.

The State's budgetary process creates challenges for the Department in adjusting COF stipend funding within a given fiscal year to account for changes in enrollment relative to estimated enrollment, without adjusting fee-for-service funding. The Department receives actual enrollment figures from the institutions each June, too late to reasonably request that the General

Assembly reallocate stipend funding among the governing boards based on actual enrollment. For example, using data from Table 7, if the Department had not reduced the originally-contracted fee-for-service amount for Colorado Mesa University downward in Fiscal Year 2011 to offset the increased stipend funding, the University would have received additional funding of about $0.7 million at the end of the academic year, when it most likely would have been too late for the institution to spend the funds effectively. Conversely, if the Department had not increased the originally-contracted fee-for-service amount for the University of Colorado System upward in Fiscal Year 2011 to offset the reduced stipend funding, the System would have received about $3.8 million less in funds at the very end of the year, after it may have spent all of its original allocation.

- **The Department's Method for Determining Fee-for-Service Funding is Imprecise.** The fact that the Department requested transfers in monies from stipends to fee-for-service for eight governing boards at the end of Fiscal Year 2011, as shown in Table 7, indicates the imprecision in the process for determining funding for fee-for-service contracts. The annual fee-for-service funding that governing boards receive is not based on the actual funding needed to provide services under fee-for-service contracts.

Why did the finding occur?

Several factors contributed to stipend funding not keeping pace with enrollment growth and inflation, including challenges in the budget process, and the deficiencies in determining the fee-for-service contract amounts. A primary factor that has affected total COF Program funding has been outside the Department's control. The economic recession and State resource limitations have reduced the State's ability to fund and implement the COF Program as intended in statute. With the national recession, many individuals have chosen education in lieu of work, which has contributed to difficulties among states nationwide to fund higher education in line with enrollment growth. Based on the most recent national data available in 2010, enrollment in Colorado's public higher education institutions was similar to the national trend; it significantly increased in Fiscal Years 2009 and 2010 while State funds available for higher education declined.

While State funding and the appropriations process have not allowed for the implementation of COF stipends as designed in Senate Bill 04-189, there are factors within the Department's control that, if addressed, could help promote the goals of Senate Bill 04-189 and the COF Program statutes.

- **The Department Did Not Consistently Request that Stipend Appropriations Reflect Inflation and Enrollment Growth, as Required by Statute.** According to the Department, it has not requested a total stipend appropriation that accounted for inflation and enrollment in the last several years because it recognized that statewide budgetary constraints made it unlikely that the State could fund the COF Program at the level required by statute. Instead, according to the Department, it was directed by the Governor's Office of State Planning and Budgeting to submit budget requests that would help ensure a balanced state-wide budget. While we understand the Department's approach to submitting budget requests based on the economic conditions and requirements to balance the budget, the requests did not inform the General Assembly about what level of funding was needed to keep pace with enrollment and inflation, as required by statute. Informing the General Assembly is important to ensure that it has the information it needs to make funding decisions.

- **The Department Has Not Developed a Process to Request Corrections for Year-End Funding Adjustments.** As shown in Table 7, the Department requests and the General Assembly approves year-end adjustments to COF Program funding that in some cases moves funds from governing boards' fee-for-service contracts to their stipends and in other cases moves funds from governing boards' stipends to their fee-for-service contracts. As discussed previously, the year-end adjustments result in underfunding the fee-for-service contracts for those institutions that increased their student enrollment during the academic year and overfunding the fee-for-service contracts for those institutions that experienced decreases in enrollment. Currently, the Department does not have a process that would allow it to correct for the year-end adjustments to both (1) fund stipends based on actual enrollment, *and* (2) fund fee-for-service based on the amount in the contract, which reflects the services institutions provide. The Department should explore ways to develop a process for requesting funding for governing boards that would help correct for prior year funding adjustments that penalized the institutions that experienced increased enrollment with decreased funding, or rewarded institutions that experienced decreased enrollment. The process should include informing the General Assembly of the appropriations needed to fund the COF Program as statute intended.

- **The Department Does Not Have a Systematic Process for Determining Its Fee-For-Service Funding Request.** According to the Department, it considers funding priorities and statutory obligations associated with fee-for-service contracts when determining the funding amount of each contract and the total fee-for-service funding request each year. However, the Department's process is imprecise because it determines the total COF Program funding (stipend and fee-for-service) to be allocated to each governing board, estimates enrollment and related stipend funding, and calculates the amount of fee-for-service funding needed to make up the difference between the total COF funding and estimated stipend funding each governing board will receive.

Why does this finding matter?

The COF Program, as implemented, has not benefited students or institutions to the extent that the General Assembly envisioned in Senate Bill 04-189. Specifically:

- **By Not Funding Stipends to Keep Pace with Inflation and Enrollment Growth, Eligible Students Have Paid a Greater Share of the Cost of Public Higher Education.** Stipends provide an important avenue through which the State supports higher education and, in the face of increasing tuition rates and student debt, an important mechanism through which public higher education can be made more affordable and accessible. We found students paid a greater share of the cost of higher education in Fiscal Year 2011 than they paid when the COF Program was implemented in Fiscal Year 2006. For example, Table 8 shows that costs increased about 57 percent for undergraduate students at four-year state institutions between Fiscal Years 2006 and 2011. In comparison, the increase in costs for undergraduate students at community college system institutions was less, an increase of about 31 percent between Fiscal Years 2006 and 2011. Costs have increased partly due to increased tuition and because COF stipends have not kept pace with inflation.

Table 8. Average Tuition Costs after Stipend Support for Students at Four-Year State Public Institutions, Fiscal Years 2006 to 2011

	2006	2007	2008	2009	2010	2011	Percent Change
Average Full-Time[1] Undergraduate Tuition	$6,661	$7,054	$7,764	$7,576	$7,394	$8,530	28%
Full-Time[1] Stipend Amount	$2,400	$2,580	$2,670	$2,040	$1,320	$1,860	-23%
Difference in Average Costs[2]	$4,261	$4,474	$5,094	$5,536	$6,074	$6,670	57%

Source: Auditor analysis of the Department of Higher Education's Tuition and Fees Report and budget requests.
1 Full-time student is based on 30 credit hours.
2 These figures do not account for other financial aid that students may receive.

The fluctuations and overall decline in the stipend amount has contributed to the need for undergraduate students to assume more of the financial cost of public higher education. The increased out-of-pocket costs borne by Colorado's undergraduate students is similar to trends observed in other states.

- **Fluctuating Stipend Amounts From Year To Year Impede Students' and Families' Ability to Plan for the Cost of Higher Education.** Changes to the stipend amount that occur from one year to the next directly impact the share of tuition students pay. The fluctuating stipend amounts can make it difficult for students to accurately assess their share of the cost of education and can make it more difficult for current and potential Coloradan students to make decisions about their future.

- **The Department Cannot Ensure the Funding it Provides Institutions Under Fee-for-Service Contracts is Based on the Costs of Providing Those Services.** As the purchaser of services, the Department should have a process for determining fee-for-service contract funding that ensures it is paying a reasonable price for the services that institutions provide. However, the Department's process does not calculate fee-for-service contract funding based on the actual funding institutions need in order to provide the services specified in their contracts. For example:

    - During Fiscal Year 2010, one governing board's fee-for-service funding included more than $1.3 million in return for providing 6,802 credit hours (a rate of about $191 per credit hour) for courses in aerospace, nursing, engineering, computer science, and other sciences. During Fiscal Year 2011, the same governing board's fee-for-service funding included about $10.7 million for 52,240 credit hours (a rate of about $205 per credit hour) for the same courses.

    - During Fiscal Year 2010, another governing board's fee-for-service funding totaled about $6.9 million in return for 1,385 credit hours in graduate services and 9,122 credit hours (an average rate of about $657 per credit hour) for specialized services for high cost engineering, math, and sciences programs. During Fiscal Year 2011, the same governing board's fee-for-service funding was about $15.5 million for 3,317 credit hours for the same graduate services and 19,244 credit hours of the same specialized services (an average rate of about $687 per credit hour).

    According to the Department, the funding amounts that the governing boards, in the examples above, received for fee-for-service contracts differed because the State provided the governing boards Federal Recovery Funds in Fiscal Years 2010 and 2011. The differences in the amounts that governing boards received from Fiscal Year 2010 to Fiscal Year 2011 are also a result of an imprecise method for determining the funding needed for each type of service provided under the governing boards' fee-for-service contracts.

Recommendation No. 1:

The Department of Higher Education should improve its processes for determining and recommending to the General Assembly the funding needed for stipends and fee-for-service contracts and ensure its processes are consistent with statute. To achieve this, the Department should:

a. Work with the Commission on Higher Education to prepare and submit to the General Assembly, annual budget requests that reflect stipend amounts that keep pace with inflation and enrollment growth in the state institutions of higher education.

b. Implement a more precise process for determining the amount of fee-for-service contract funding for governing boards to better reflect the services provided and include this level of fee-for-service funding in the annual College Opportunity Fund (COF) Program appropriation request to the General Assembly.

c. Explore the feasibility of an annual budgetary adjustment to the governing boards' appropriations that would better reflect actual COF stipend enrollment and the costs of services provided by institutions through fee-for-service contracts.

Department of Higher Education Response:

a. Agree. Implementation date: November 2012

In recent years the Department and Colorado Commission on Higher Education have not submitted budget requests that might conflict with those prepared pursuant to the Governor's overall budget request and statewide budget balancing efforts. This decision was made based on the bleak budgetary outlook and the reality that institutions were already taking significant reductions due to a lack of State revenue. In the future, in addition to the budget request prepared at the direction of the Governor's Office, the Department will work with the Commission to prepare for the General Assembly a submission that identifies the costs for inflation and enrollment growth at the institutions. This submission will make the General Assembly aware in a more specific manner of the resources required to fully fund enrollment and inflation changes.

b. Agree. Implementation date: December 2012

The Department agrees there is not currently a precise process for determining fee-for-service contract funding for governing boards that adequately reflects the services provided. The Department agrees to collaborate with the governing boards to work toward a more transparent and consistent valuation of the services provided through the fee-for-service contracts.

c. Agree. Implementation date: December 2012

The Department will consult with the governing boards and the Colorado Commission on Higher Education to explore the possibility of a process to request annual budgetary adjustments that would better reflect actual COF

Program stipend enrollments and the costs of services provided by institutions through fee-for-service contracts.

Stipend Eligibility and Administration

The stipend component of the COF Program is overseen by the Department and administered by individual institutions. As it relates to stipend administration, the Department is responsible for:

- Recommending policy to the Commission regarding the issuance of stipends and approval of institutional waivers of the statutory credit hour limits on stipends
- Issuing stipend payments to institutions on behalf of students
- Ensuring stipends are paid only for eligible courses and on behalf of eligible students
- Granting Commission waivers of the statutory credit hour limits on stipends

According to Department and institution representatives, student eligibility for COF Program stipends is determined by institutions; the Department does not actively monitor institutional practices for determining eligibility. The processes for ensuring student eligibility are left to the discretion of institutions' management, and include requiring students to provide documentation supporting COF stipend eligibility (i.e., that they are in-state residents for tuition purposes, they graduated from a Colorado high school, they have a financial need, and they are not pursuing a degree in theology). Institutions reported that they obtain multiple forms of student identification information, such as a valid drivers' license or passport, tax documentation, military identification, and pay stubs, upon enrollment to verify a student's eligibility. Institutions enter identification information regarding residency status and COF stipend eligibility into two separate State databases:

- **The Student Unit Record Data System (SURDS)** is updated periodically by institutions. SURDS is primarily used to capture student records pertaining to enrollment, undergraduate applicant information, degrees awarded, and financial aid; and allows the Department to track progress in meeting statewide goals and to meet federal reporting guidelines.
- **The College Opportunity Fund database (COF database)** is a financial system used by the Department to track students in the COF Program and stipend payments.

Neither of the Department’s systems has the capability to perform the functions of, or directly communicate with, the other; however, information from the two systems can be combined for reporting purposes.

What audit work was performed and what was the purpose?

The purpose of the audit work was to assess how the Department ensures that COF stipends are paid to institutions only as permitted by statute—that is, on behalf of eligible students, for eligible courses, and only for the limited number of credit hours or within the waiver limits prescribed in statute. Specifically, we:

- Reviewed statutes related to the COF Program, interviewed Commission and Department representatives, and compared Department policies and practices to statutory requirements.

- Assessed the Department’s internal controls that are intended to ensure student and course eligibility for COF stipends. This included reviewing documentation for a judgmental sample of 50 students from seven institutions that received stipend payments in Fiscal Year 2011 to determine whether the students were eligible for the COF Program. We selected this sample from about 35,600 students in the Department’s COF database that we identified as potentially ineligible for the Program to evaluate the Department’s processes for ensuring and tracking student eligibility. We also compared student eligibility information maintained in the Department’s COF database and SURDS, and reviewed the Department’s Fiscal Year 2006 audits of three institutions to determine the deficiencies previously identified.

- Selected a sample of 30 out of the 4,300 institutional waivers granted between Fiscal Years 2006 and 2011 based on characteristics such as whether students received waivers from multiple institutions or in more than one fiscal year. We tested each to ensure stipend waivers were limited to one year, as required by statute, and defined “one year” as 12 consecutive months, to evaluate the Department’s methods for assessing institutional compliance with statutory waiver limits and for preventing stipend payments in cases that exceeded statutory limits.

- Selected a sample of 35 out of the total 256 student requests for Commission waivers between Fiscal Years 2006 and 2011. For the 35 Commission waivers, we reviewed supporting documentation to assess whether the Department’s methodology for granting and denying waivers was consistent with statutory requirements. We also reviewed stipend payments issued to students as a result of the sampled Commission waivers to ensure students did not receive more in stipend payments than authorized in the waiver.

How were the results of the audit work measured?

According to Section 23-18-201(1), C.R.S., the COF Program is created in the Department and consists of a stipend for each eligible undergraduate student. As such, the Department should ensure the COF Program adheres to program requirements in statute including ensuring stipends are only paid when students are eligible.

Stipend Eligibility Requirements. According to statute, students must be classified as an undergraduate Colorado resident student, for tuition purposes only, in order to receive COF stipends [Sections 23-18-102(5)(a)(I) and 23-7-103, C.R.S.]. Some students that are not state residents but have special classifications such as military [Section 23-7-103, C.R.S.] or Olympic personnel [Section 23-7-105, C.R.S.], are also eligible for stipends [Section 23-18-102(5)(a), C.R.S.]. In addition, stipends may not be applied towards certain courses, such as international baccalaureate, advanced placement, and off-campus classes, except as approved by the Commission; or classes offered by an institution that was established after July 1, 2007 [Section 12-18-202(5)(d)(I)(G), C.R.S.].

Stipend Limits. Statute only allows a student to receive stipends for a maximum of 145 eligible undergraduate credit hours during his or her lifetime. A student who has received a baccalaureate degree through COF stipends may receive stipends for an additional 30 undergraduate credit hours for post-graduate career development [Section 23-18-202(5), C.R.S.]. Statute also allows institutions and the Commission to issue waivers of the statutory limits, as follows:

- **Institutional Waivers.** Statute allows each institution to annually grant a one-year waiver of the 145 lifetime credit hour limitation for up to 5 percent of the COF Program eligible undergraduate students [Section 23-18-202(5)(f), C.R.S.]. Statute does not restrict the number of institutions from which a student may receive an institutional waiver. In addition, statute does not prescribe the specific process that institutions must follow for granting waivers and therefore, institutions establish their own processes.

- **Commission Waivers.** The Commission may grant a waiver without regard to the 5 percent limit imposed on each institution [Section 23-18-202(5)(e), C.R.S.]. The Commission delegated the administration of "Commission waivers" to the Department and has not placed limits on the number of waivers the Department may issue. According to the Department, the Commission has encouraged access to waivers for students in order to comply with the statewide goal of increasing degree attainment for Colorado residents and accepts waiver applications throughout the year as needed. In order to grant a Commission waiver, statute requires at least one of the following be present: (1) extenuating circumstances with respect to the student's health or physical ability; (2) the student's degree program requires more than 120 hours to complete; (3) the student's degree requirements were altered while the student was enrolled in the program; or (4) requiring the student to pay full tuition would cause a substantial economic hardship on the student and the student's family.

According to the Department, COF stipend eligibility requirements and restrictions on waivers were designed to encourage more timely degree completion among Coloradans, and to limit per-student stipend costs.

What did the audit work find?

Stipends may have been paid in cases that were not entirely compliant with statute or statutory intent. According to the Department and institution representatives, controls to ensure stipend eligibility are maintained at the institution level. Yet, it is the Department's responsibility to ensure stipends are only paid on behalf of eligible undergraduate students [Section 23-18-202(1)(b)(I), C.R.S.]. Several factors suggest that under current procedures, the Department cannot be reasonably assured that no stipends are paid to ineligible participants. Specifically, we found:

- **Three of 50 students we tested were ineligible for stipends and for another 27 students there was insufficient documentation to demonstrate eligibility.** To try to verify the eligibility of students in the COF Program in Fiscal Years 2006 through 2011 on a global basis, we compared the information institutions self-reported in the COF database with information in institutions reported to SURDS. Our comparison found that for about 35,600 (or 6 percent) of the approximately 600,000 students who received stipends between Fiscal Years 2006 and 2011, student residency information in the two databases did not match. Because the two systems are used for different purposes and therefore record residency information differently, we could not determine solely from the comparison whether any of the 35,600 students were in fact ineligible. Therefore, we reviewed supporting documentation from institutions for a sample of 50 of the 35,600 students to evaluate eligibility. We found that 3 of the 50 (6 percent) students who received stipends from 3 institutions were not eligible for a total $4,278 in stipend payments; and for 27 of the 50 (54 percent) students who were approved for stipends by six institutions, the institutions were not able to provide sufficient documentation to support the students were eligible.

- **Six of 30 institutional waivers we reviewed may have exceeded the statutory one-year limit.** We identified six instances in our sample where stipends paid through institutional waivers between Fiscal Years 2007 and 2011 were questionable because the stipends were paid over three consecutive semesters (e.g., Fall, Spring, and the Fall of the following academic year, including Winter and Summer terms) that appear to exceed a 12-month period. Such waivers would be allowed if the four semesters all occurred within a 12-month period. However, information maintained by the Department was insufficient to determine whether the stipends were for courses within one year, as required by statute.

Why did the finding occur?

Overall, the Department has not implemented sufficient controls to ensure stipends are only paid to institutions on behalf of eligible students and for eligible courses. The Department does not monitor institutions to verify procedures are adequate to ensure students who receive stipends are eligible, nor does the Department have internal procedures to verify COF stipend eligibility, such as processes to ensure compliance with statutory residency requirements, the one-year timeline for institution waivers, or course-type limitations. Specifically:

- The Department does not regularly monitor institutions to ensure compliance with statute. For example, the Department does not request supporting documentation or conduct on-site or desk reviews of institutional records to verify the accuracy of the data that institutions report to the COF and SURDS databases. In 2006, the Department audited a sample of three institutions but has not audited any institutions since then. The three audits identified problems including stipends that were paid for ineligible courses, inadequate institutional documentation to support eligibility, and the misreporting of data. The Department required the audited institutions to reimburse the COF Program for unallowable payments but, according to Department management, did not continue to audit institutions due to resource limitations that led them to direct resources to areas that they believed were higher priority. While lack of resources are a legitimate concern, implementing a risk-based process to periodically assess compliance would provide the Department reasonable assurance that students are eligible while limiting the additional resources needed to provide program oversight. Risk-based monitoring may include conducting desk reviews of a sample of student records from the institutions with the most students participating in the COF Program or randomly reviewing supporting documentation for a sample of institutions each year based on risk, where risk of noncompliance is determined by the Department. A monitoring process should include reviewing student and course eligibility; ensuring institutions maintain sufficient underlying support for student eligibility and waivers granted; and following up with institutions to ensure the problems identified in the risk-based reviews are corrected.

- The processes employed by the Department to verify eligibility currently consists of comparing student identification information in the COF database to data maintained by the Colorado Division of Motor Vehicles at the Department of Revenue. While this process verifies the identity of individuals applying for the COF Program, it is not sufficient for determining whether the student is eligible for a stipend because statute requires COF participants to be Colorado residents or individuals granted residency status through statute—such as military personnel or Olympians [Sections 23-3-103 and 23-7-105, C.R.S.].

- The Department does not review stipend payments related to waivers to ensure compliance, nor does it consistently obtain institutional waiver information needed to ensure payments are accurate. For each of the six instances where students received stipend payments for waivers covering three semesters, institutions had interpreted the Department's policy to allow the waivers for courses taken over three consecutive semesters (e.g., Fall, Spring, and Fall) plus courses taken during the winter and summer breaks even if the total time period covered by the waivers exceeds 12 months. Recommendation No. 3 further discusses how the one-year limit for waivers is not clearly defined. According to the Department, its ability to monitor waivers is limited because it does not always obtain detailed institutional waiver information needed to ascertain the number of course hours waived or the beginning and ending dates of each student's waiver(s).

- The Department does not obtain data and documentation needed to verify that the courses students took were stipend-eligible; this information is maintained at the institutions and neither the COF nor SURDS databases contain fields in which institutions can designate course eligibility. Currently, institutions only report to the Department the total credit hours for which each student should be paid stipends; the institutions do not report the specific courses for which the students received stipend payments. According to the Department, it has identified instances in which it paid stipends to institutions for courses, only to discover later that the courses were not eligible. When this occurs, the Department seeks reimbursement from the institution; yet, the Department discovers such instances only by happenstance such as during student inquiries and while reviewing requests for waivers. To verify course eligibility the Department would need to obtain course information from institutions such as by requiring institutions to record in the COF database the courses that stipend payments are being applied against.

Why does this finding matter?

Based on the problems we identified, the Department cannot be reasonably assured that all COF participants who received stipends are eligible. As discussed in the introduction to this chapter, economic conditions and funding limitations since the COF Program was implemented have contributed to lower annual stipend amounts. Ensuring all monies go to eligible students may allow for larger stipends in the future under certain circumstances. For example, if funding for COF stipends increases over time to more consistently reflect inflation and enrollment growth, as the General Assembly intended, then it will be more important that only eligible students receive stipends and the Department has a risk-based process for ensuring stipends are not paid to ineligible students. Additionally, as discussed in Recommendation No. 3, the unclear definition for one-year waivers may allow institutions to grant waivers for courses taken over more than 12 months and students to obtain stipends for more waived credit hours than may be intended by statutory limits.

Recommendation No. 2:

The Department of Higher Education should ensure College Opportunity Fund (COF) Program stipends are paid to eligible students for eligible courses, consistent with statute and legislative intent by:

a. Developing risk-based processes to monitor the eligibility of students for stipends including periodically conducting on-site audits or desk reviews of eligibility data to ensure statutory compliance. Monitoring should also include reviewing information on courses that stipend payments are applied against, waiver dates, and the number of waiver credit hours granted reported by institutions in the COF database to verify the accuracy of the information.

b. Instituting a process for following up to ensure problems identified in risk-based and data reviews are corrected and seeking reimbursement from institutions for unallowable stipends paid. As part of this effort, the Department should review the 30 (3 ineligible and 27 questionable) student stipends and 6 institutional waivers identified as questionable in this audit to determine whether the institutions accurately determined the students' eligibility for the stipends.

Department of Higher Education Response:

a. Agree. Implementation date: February 2013

   The Department agrees this area of COF Program administration could be improved. The recommended review process will be implemented within existing resources. The position description for a recently vacated position has been reworked to incorporate this function. Once hired, the Finance Policy Officer will have primary responsibility for developing the risk-based review process outlined in this recommendation.

b. Agree. Implementation date: February 2013

   As part of the development of the risk-based review process to be implemented above, the Finance Policy Officer will also be responsible for follow-up on the possible issues identified in the audit. The Department will include in the review process a procedure for collecting reimbursements from institutions in situations that warrant such action.

Administration of Waivers

Between Fiscal Years 2006 and 2011, approximately 4,300 out of nearly 600,000 students who received COF stipends received waivers of the statutory 145 hour lifetime limit on stipends. Institutions paid the nearly 4,300 students about $3.7 million in institutional waiver stipends and the Department paid about 120 students approximately $109,000 in commission waiver stipends. The combined number of students receiving waivers, and thereby receiving stipend payments after reaching the credit hour limit, has increased each year since the implementation of the COF Program, as shown in Table 9. This trend is not surprising given that students began approaching the 145 credit hour lifetime limit after the first few years of the COF Program.

Table 9. Number of Students That Received Waivers and Total Waiver Stipend Payments, Fiscal Years 2006 to 2011

	2006	2007	2008	2009	2010	2011
Commission Waivers[1]	-	2	20	29	54	26
Total payments for Commission waivers	$0	$3,500	$20,600	$29,400	$37,000	$18,000
Institutional Waivers[1]	1	380	589	690	1,380	1,940
Total payments for institutional waivers	$800	$289,600	$621,100	$547,900	$706,500	$1,495,600
Total Waivers Granted	**1**	**382**	**609**	**719**	**1,434**	**1,966**
Total Payments for Waivers	**$800**	**$293,100**	**$641,700**	**$577,300**	**$743,500**	**$1,513,600**

Source: The COF database and Department records.

[1] The total Commission Waivers and Institutional Waivers listed in this table represent the number of students that received those waivers in each year; a student may receive waivers in multiple years, from multiple institutions, and from both the Commission and institutions. Therefore, students may be counted more than once in this table.

What audit work was performed and what was the purpose?

The purpose of the audit work was to assess the extent to which institutional and Commission waivers contribute to the success of the COF Program. Specifically, we:

- Reviewed statutes related to the COF Program, interviewed Commission and Department representatives regarding methods employed to issue waivers; assessed management and internal controls employed by the Department to determine eligibility for waivers; assessed Department policies, procedures, and written guidance provided to institutions for processing waivers; and compared Department practices to statutory requirements.

- Reviewed Department data on the total number of waivers issued in Fiscal Years 2006 through 2011 and the resulting stipend payments to students.

- Reviewed a sample of 30 waivers issued by institutions and 35 Commission waivers issued between Fiscal Years 2006 and 2011. The samples selected were non-statistical and are not sufficient to make inferences regarding the full population of waivers granted by institutions and the Department; the samples selected were sufficient, however, to assess the adequacy of internal controls and processes implemented by the Department.

How were the results of the audit work measured?

Waivers give students an opportunity to receive stipends to complete their degrees after they have exceeded the statutory 145 hour lifetime limit. According to the Department staff we interviewed, statutory limits on stipends and limits on waivers are meant to serve two purposes: encourage students to obtain undergraduate degrees in a timely manner (i.e., in a minimum of credit hours) and limit per-student stipend costs. We measured our audit work against these two goals.

What did the audit work find?

Provisions in statutes, such as the 145 hour lifetime limit and one-year limit for waivers, appear to be intended to restrict the amount of courses a student may take under the COF Program. As implemented, waivers may reduce the COF Program's ability to meet the goal of encouraging timely graduation more than was intended in Senate Bill 04-189 and statute. Specifically, we found:

- **It is Not Clear That the COF Program Has Reduced the Average Number of Credit Hours Students Take to Complete a Degree.** In Fiscal Year 2006, when the COF Program was first implemented, the average number of course credit hours at the time of degree completion for an associate's degree for COF participants was 83 hours; in Fiscal Year 2010, the average number of course credit hours for degree completion was 82. Over the same period, the average number of course credit hours at time of degree completion for a baccalaureate degree for COF participants remained between 135 and 136 credit hours. According to the Department, the improvement in associate's degree completion and the steady rate for baccalaureate degree completion since Fiscal Year 2006, may be correlated with the COF Program credit hour limits. Yet in Fiscal Year 2010, the average number of course credit hours at time of degree completion for COF participants and non-COF participants was 136 and 135 credit hours, respectively, indicating that the evidence may not support that COF Program limits are correlated with Colorado's positive degree completion rates.

- **Different Institutions Administer Waivers Differently.** Three institutions have granted 62 percent of all institutional waivers since the COF Program was implemented in 2006; one of these institutions has granted almost one-half of all institutional waivers granted statewide. We found some institutions are more aggressive in issuing waivers. For example, some institutions have implemented a process to identify students who are approaching their 145 credit hour stipend limit; notify the students that they will receive a one-year institutional waiver upon application; and allow those students to take additional credit hours under the waiver during the one-year period. In contrast, other institutions have established a more deliberative process that we believe is more consistent with the intent of 145 credit hour limit on stipends. These institutions review and evaluate the waiver application and factors contributing to the need for a waiver; and only approve the number of credit hours needed to complete the degree in the one-year period. While statute does not require all institutions to have the same process for administering waivers, it is unclear whether the General Assembly intended for institutions to have waiver processes that vary widely, with some institutions having more rigorous application processes for issuing waivers and other institutions providing waivers to any student approaching the 145 credit hour limit. More aggressive practices for issuing waivers undermine the statutory intent of the 145 hour lifetime limit on stipends.

Why did the finding occur?

Overall, waivers may reduce the COF Program's ability to encourage timely graduation more than was intended because statute and the Department do not specifically prohibit students from receiving multiple waivers and the Department has not implemented procedures or guidance to help ensure greater consistency in the institutions' application processes. Specifically:

- **Some Students Obtain Multiple Waivers Simultaneously From Different Institutions.** Statute does not preclude students from receiving institutional waivers from more than one institution, either consecutively or concurrently. Our review of 30 institutional waivers identified three instances where students received institutional waivers simultaneously from two institutions resulting in a total of $9,038 in waiver stipend payments for a total of 127 credit hours. We also identified one instance where a student in our sample received institutional waivers from three different public institutions. Although not prohibited, this student received a total of 24 credit hours in waivers from the three institutions totaling about $1,989 in stipend payments. These examples demonstrate the risk that a student could receive a large number of stipend payments for institutional waivers from multiple institutions.

- **Some Students Obtain Both Institutional and Commission Waivers.** If a student needs more than one, one-year waiver to complete a degree, the Department instructs him or her to seek a Commission waiver. We identified five instances from our sample of 30 where students had received both types of waivers.

- **Institutions Have Granted Students Waivers for More Than One-Year.** The Department has provided written guidance to institutions defining the "one-year" limit on institutional waivers as any consecutive 12-month period and limiting students to "a one-time, one year-waiver". However, as discussed in Recommendation 2, our review of 30 institutional waivers identified six instances in which waivers appeared to exceed one year and the Department does not consistently collect information regarding the terms of institutional waivers, such as the start and end dates, which is needed to show whether institutions granted waivers after the 12-month period expired.

Based on data maintained in the COF database, it is not apparent that the statutory restriction of the one-year waiver period limit for students actually limits institutional waivers. The Department should work with the Commission to establish a policy that ensures institutions administer waivers to students more consistently by either clearly defining the one-year institutional waiver period or specifying a maximum number of waiver hours—such as 30 credit hours—that a student may receive in one-year regardless of the institution the student attends.

Why does this finding matter?

Although in some respects it may be early to assess how waivers will be used in the future given the COF Program is relatively new, if the use of waivers continues to rise it could reduce the effectiveness of the 145 credit hour limit in controlling costs. The 145 credit hour limit established in statute can encourage timely degree completion by limiting the amount the State will expend on a per-student basis. For instance, a student that enrolled for the first time in Fiscal Year 2006 and averaged 30 credit hours per year would have reached his or her 145 credit hour limit in Fiscal Year 2010, and would have received $10,790 in stipend support during this period. Theoretically, knowing stipend support would cease after 145 credit hours would encourage students to graduate within 145 hours. We found that this was not always the case, as each year the number of students receiving waivers has increased. While it may be reasonable that more students received waivers as they reached the statutory 145 credit hour limit, since Fiscal Year 2006 the total amount of institution and Commission waiver stipend payments has increased from $800 to more than $1.5 million in Fiscal Year 2011.

While less than 1 percent of students are currently receiving waivers, resulting in a relatively low total cost compared to total COF stipend funding, if the number of waivers continue to increase at the rate they increased between Fiscal Years 2010 and 2011, institutions' practices in granting waivers could have a system-wide impact on COF Program funding and the stipend amount. In the future, if COF stipends are funded as intended under statute, as the number of waivers granted increases, the average per-student cost to the COF Program will also increase, which may make it more difficult for the State to maintain a consistent stipend amount over time or increase the stipend value to reflect inflation.

In addition, inconsistencies in how stipend waivers are administered at the institutional level, such as some institutions limiting institutional waivers and other institutions granting waivers to students, in essence, automatically, may result in inequitable granting of institutional waivers for students in the COF Program and do not promote cost containment.

Recommendation No. 3:

The Department of Higher Education should work with the Commission on Higher Education to ensure the use of waivers in the College Opportunity Fund Program do not inhibit the Program's ability to achieve the goals of encouraging timely graduation and distributing stipend dollars equitably to eligible students by:

a. Developing written policies defining "one-year" waivers, such as to include the maximum number of credit hours for which a student may receive a waiver during a 12-month period.

b. Providing updated written guidance for institutions that reflects the definition of "one-year" waivers and helps provide greater consistency in the waiver application processes implemented by institutions, including encouraging institutions to implement more deliberative processes for issuing waivers.

Department of Higher Education Response:

a. Agree. Implementation date: February 2013

   The Department agrees to update existing written policies to better define "one-year" waivers pursuant to existing statute.

b. Partially Agree. Implementation date: February 2013

   The Department currently issues COF Program guidelines and provides these to the institutions. The Department agrees to examine additional guidance regarding the definition of "one-year" waivers in the event such guidance is required. The Department will review and update or amend the existing guidelines as appropriate. However, the Department would note that guidelines are just such. It is still the purview of individual institutions to implement the waiver process as they deem appropriate, within the confines of existing statute. The Department partially agrees to encourage institutions to implement more deliberative processes for the granting of waivers but notes that additional guidance could require statutory change.

Auditor's Addendum:

It appears the General Assembly intended to place limits on stipends to encourage students to complete their degrees in a timely way and to control COF Program costs. Specifically, the General Assembly established the 145 credit hour lifetime limit on stipends in statute and established a one-year limit on institutional waivers. The recommendation to encourage institutions to implement deliberative processes for issuing waivers, such as processes that involve evaluating students' applications and the need for a waiver are consistent with the intent of the stipend limits currently in statute.

Performance Contracts

Over the last decade, many states have begun developing performance metrics to increase accountability in higher education and ensure limited State funding is used in the most efficient and effective manner. According to the Department, Colorado was the first state to develop performance-based contracts with institutions of higher education, which set forth goals for institutional performance and are intended to provide greater institutional accountability. Performance contracts are approved by the Commission and executed by and between the Department and the respective governing board or institution. In Fiscal Year 2005, the Department executed five-year performance contracts with each state public institution governing board and since then has executed contracts with the three private institutions participating in the stipend portion of the COF Program. The initial contracts expired in June 2009 but the General Assembly allowed the Department to extend the performance contracts through December 2012 as the Department undertook an evaluation to determine how to improve the contracts going forward. The Department expects to begin establishing new contracts with all COF institutions in June 2012.

Currently, there is no funding associated with the performance contracts. However, in Fiscal Year 2011, the General Assembly passed Senate Bill 11-052, which revised how performance contracts will be used in the future. Senate Bill 11-052 and statute require the Commission to create a plan by December 2013 for allocating a portion of each institution's funding based on its success in achieving the goals and outcomes contained in its performance contract. The Commission is required to implement the performance-based funding plan through performance contracts once State General Fund appropriations for higher education, excluding financial assistance, exceed $706 million in a given year, but no sooner than Fiscal Year 2016 [Section 23-1-108, C.R.S.]. We believe the Department and the institutions can use the experience they have gained with performance contracts over the last seven years to improve the performance contracting processes in preparation for future funding changes required by Senate Bill 11-052 and statute.

What audit work was performed and what was the purpose?

We evaluated performance contracts between the Department and governing boards. The purpose of the audit work was to determine whether the Department's contracts provide a sufficient basis upon which to evaluate and measure institutional performance and whether performance monitoring practices are sufficient to ensure institutions comply with contracts; applicable statutes; and legislative intent established in Senate Bill 04-189 and statute. Specifically, we:

- Reviewed statutory requirements [Sections 23-1-109.7, 23-5-130, and 23-5-129, C.R.S.] relating to performance contracts that were in effect from Fiscal Year 2005 through December 2012; other authoritative guidance that the Department is required to follow including State Fiscal Rules, State Controller policy, and the State of Colorado Procurement Manual; and best practices relating to performance-based contracts.

- Reviewed Senate Bill 11-052 and statutory requirements [Section 23-1-108, C.R.S.] relating to performance-based funding to assess how current Department processes may affect its ability to implement performance contracts and comply with statute in the future.

- Evaluated the Department's processes for developing contracts and monitoring institutional performance by interviewing representatives of the Commission, Department, and a sample of six institutions, including the community college system; and reviewing pertinent documentation such as the Department's internal review of performance contracts and *Strategic Plan for Higher Education.*

- Selected a representative sample of five of the 13 performance contracts between the Department and participating governing boards or institutions of higher education in effect between Fiscal Years 2005 and 2012 to determine whether they included statutorily mandated provisions and incorporated provisions necessary to achieve their purpose to provide for focused accountability.

How were the results of the audit work measured?

We used the following criteria in evaluating the implementation of performance contracts:

- **Broad Statutory Goals.** Senate Bill 04-189 states that performance contracts should provide for greater flexibility and a more focused accountability for institutions to students and the people of Colorado [Senate Bill 04-189, (1)(5)(c)]. In addition, statute indicates that performance contracts should help improve Colorado residents' access to higher education, the quality of higher education, and the efficiency of institutional operations [Section 23-5-129(2)(c), C.R.S.].

- **Specific Statutory Requirements for Performance Contracts.** According to statute, performance contracts shall specify the performance goals institutions shall achieve during the contract period and the goals in contracts shall be measurable and tailored to the role and mission of each institution" [Section 23-5-129(2), C.R.S.].

- **Best Practices and Guidance.** A best practice in performance management recognized by statute [Section 23-5-129(2), C.R.S.] and the Commission is to annually assess progress toward meeting established goals and identify factors contributing to or hindering an institution's success in achieving goals and targets. In addition, the Colorado State Procurement Manual, State Fiscal Rules, and State Controller policy outline general requirements and best practices for state contracts including: (1) incorporating contract provisions that clearly define expectations and provide a sound basis upon which both parties can assess compliance with agreed upon terms, and (2) monitoring contractors and evaluating their performance to ensure adequate compliance. For instance, Fiscal Rule 3-1 requires State agencies to monitor contracts with respect to the performance requirements established in the contract, and the State Procurement Manual emphasizes the importance of measuring contract performance by evaluating outcomes, efficiency, and effectiveness.

What did the audit work find?

We found the Department could improve both the goals included in the performance contracts and its monitoring of the contracts to better promote achievement of Senate Bill 04-189 and COF Program goals, as described below.

- **Goals Were Not Always Clearly Defined or Measurable.** Each of the five sampled performance contracts we reviewed included some goals that were not clearly defined or measurable. The five contracts we reviewed contained between two and seven goals each, some of which included subordinate goals or objectives. For instance, each performance contract included goals relating to "Access and Success", which typically included subordinate goals that address retention rates, graduation rates, and underserved students. Each contract included specific and measurable goals regarding "success", including retention and graduation rates, but did not provide measurable goals regarding "access". In one case, an institution's performance contract included a goal that the institution serve underrepresented students by "direct[ing] such resources as [the institution] determines may be available to programs designed to increase enrollment, retention, and graduation of underserved students". A more clearly defined and measurable goal would include specific dollar amounts and targets, such as, "in Fiscal Year 2011, the institution shall direct an additional $X million toward Programs 1, 2 & 3 to increase enrollment by at least X percent, retention by at least X percent, and graduation of underserved students by at least X percent by 2015". Another institution's contract listed the access and retention services it intended to provide for underserved students, yet the contract did not include measurable targets for increasing enrollment or retention of those students over the contract period. Similarly, performance contracts generally did not stipulate specific or measurable goals for many of the other goal categories ("Quality in Undergraduate Education", "Efficiency of Operations", "Other State Needs – Teacher Education" and "Workforce and Economic Development"); instead of prescribing measurable goals or performance targets, the contracts set forth reporting requirements. Imprecise goals and reporting requirements are not sufficient to provide a basis against which the Department can readily determine the outcome of the institutions' efforts, such as whether the services provided by institutions increased recruitment, retention, and graduation rates over the period.

- **Goals Were Not Always Meaningful.** Each of the performance contracts we reviewed contained some goals that were not meaningful because they were not tied to institution missions and strategic plans. For example, as described previously, performance contracts generally include goals related to retention rates, graduation rates, and underserved students. The goals of both the Colorado State University System and Colorado Community College System were the same: to increase fall-to-fall retention rates for first-time, full-time freshman, and to increase graduation rates for first-time, full-time freshmen—the primary difference was the target percentage, higher rates for four-year institutions and lower for two-year institutions. While retention and graduation rates are important indicators of success, their importance varies depending on the missions of different governing boards. For instance, graduation and retention rates are important performance indicators for a four-year institution; indicators of performance for a community college may be graduation rates as well as successful student transfers to four-year institutions—yet goals related to transfers were not included in the performance contracts we reviewed.

  We also found that the Department did not update goals in any of the performance contracts between Fiscal Years 2005 and 2012 to reflect changes in the academic environment. For example, one institution's contract included a goal to increase enrollment by 2 percent over a four-year period. While the goal may have been meaningful when it was established in Fiscal Year 2005, the economic recession contributed to increased enrollment throughout Colorado, with actual enrollment at the institution increasing by 18 percent through Fiscal Year 2011. Thus, the institution's initial 2 percent enrollment goal may have been too low and could have been adjusted or updated to be more meaningful.

- **Contracts Included Only Long Term Goals.** From Fiscal Years 2005 through 2012, the Department's approach to performance contracting and monitoring was to establish five-year goals for each institution; collect data with respect to the long-term targets self-reported by institutions; annually report the data to the Commission and the General Assembly; and evaluate each institution's performance at the end of the five-year contract period. We found the performance contracts did not contain annual goals, so while the Department reports data annually, it does not assess institutions' progress towards meeting long-term contract goals by evaluating performance against annual milestones. As such, because performance contracts incorporated only five-year goals and not short-term outcomes, annual reports may not have been as useful in gauging institutions' progress toward longer-term goals. Annual goals, along with longer-term goals, would help the Department assess institutional progress, and will be essential when the Department implements a performance-based funding model that relies on timely and accurate performance statistics to award outcome-based funding. We also found the Department did not identify factors hindering institutions from meeting goals or develop action items that institutions should address in future performance contracts as part of its annual performance reporting or as part of its five-year evaluation of contracts.

- **Some Performance Data Reported by Institutions are Unreliable.** Some of the data the Department used to assess institutions' performance at the end of the five-year contract term were unreliable. Performance data used by the Department is self-reported by institutions through the Department's SURDS and COF databases and, as discussed in Recommendation 2, is not independently verified by the Department for accuracy. SURDS is used to record student achievement (e.g., degree completion), student demographics (i.e., data necessary to determine enrollment trends for under-represented groups), enrollment statistics, and many other factors. The COF database is used to record stipends paid to institutions on the student's behalf. We found that institutions provided data using different definitions or parameters, often resulting in inconsistencies. For instance, our review of student data contained in the SURDS and COF databases revealed the following inconsistencies and inaccuracies:

    - More than 14,000 student records in the COF database for Fiscal Year 2011 did not match records in the SURDS database; the Department requires three fields (social security number, name of institution, and student date of birth) to match in order to link data from the SURDS and COF databases. This information is important to evaluate access and success rates specifically for students receiving COF stipends, as compared to non-COF participants and system-wide trends.

    - 12 of the 25 institutions currently participating in the COF Program did not report federal financial aid (e.g., Pell grant) status information during the Fiscal Years 2004, 2005, and 2006—the years immediately preceding implementation of Senate Bill 04-189 and the first year of the COF Program—in the SURDS database. This information is important to evaluate enrollment and retention trends for under-represented, low-income students.

Why did the finding occur?

When first implemented in Fiscal Year 2005, performance contracts for institutions of higher education were new and untried. Because of this, the Department established five-year contracts and a plan to evaluate their effectiveness and determine possible improvements to contract provisions at the end of the five-year term. In Fiscal Year 2011, the Department completed this evaluation process and is taking steps to develop new performance contracts in a manner consistent with Senate Bill 11-052 and statute [Section 23-1-108(1.9), C.R.S.]. We identified the following factors that contributed to the weaknesses we found in the Department's initial five-year performance contracts and which the Department should address as it develops and monitors future performance contracts.

- **Lack of Policies and Guidance.** Statute provides the Commission the authority to develop policies for establishing specific goals, yet neither the Commission nor the Department has established policies or guidance regarding how goals should be developed or measured. For instance, although statute requires that goals be measurable, there are no policies and procedures for developing measurable goals, and the Department does not give institutions clear guidance to help ensure the institutions provide data consistently with one another.

- **Lack of Coordination.** The Department, in executing performance contracts, and the Commission, in approving the contracts, did not consistently work with the institutions to ensure the goals established were measurable and tailored to the role and mission of the institution as required by statute [Section 23-5-129, C.R.S.]. The Department's five-year evaluation of performance contracts identified concerns expressed by governing boards including that, in some cases, the Department had not discussed with the institutions whether the goals in the contract pertained to the institution's strategic plan or mission. The Department and some institutions have reported that they will need to work more collaboratively to develop institution-specific performance measures in the future.

- **The Department Did Not Update Goals.** According to Department representatives, it intentionally did not update performance contract goals, reassess the reasonability of goals to reflect the changing academic environment, or assess institutions' progress toward meeting goals prior to its five-year evaluation. While the staff who developed the goals in performance contracts were no longer with the Department at the time of our audit, Department representatives did state that goals were not updated because they believed it would be unfair to create a "moving target" for institutions that previously agreed to specific goals. According to a Department survey of the institutions conducted in Fiscal Year 2011, institution leaders noted that there were times when changes in institutional environments could or should have led to changes in goals, but there was no process in place for conversations of such changes. Periodically following up with institutions to discuss performance contract goals would help the Department determine and address changes at the institutions, as needed. To implement the requirements of Senate Bill 11-052, the Department has recognized in its strategic plan the need to update performance contracts on a regular basis, reassess goals periodically to ensure they are meaningful and institutions are progressing toward meeting them, and implement an annual evaluation process to assess performance.

- **Lack of Methods to Validate Institutional Performance Data.** As explained previously, in 2006, the Department audited a sample of three public institutions to assess the accuracy of records in the COF database but it has not audited any other institutions since or audited information that institutions reported in the SURDS database primarily due to resource limitations. To accurately determine whether institutions meet contract performance goals and requirements, the Department will need to validate the accuracy of performance data reported by institutions. Implementing risk-based desk reviews and audits, as recommended in Recommendation 2, are efficient ways to assess the accuracy of data when resources are limited.

Why does this finding matter?

Performance contracts, and the performance standards incorporated into each, were intended to provide increased accountability for all institutions participating in the COF Program. Overall, we found that performance contracts only contribute to more accountability by providing a mechanism to compile and report performance data, but lack key provisions that could significantly enhance a more focused accountability in furtherance of the intent of COF Program statutes and Senate Bill 04-189. Additionally, improvements to the Department's contract management practices will be essential in the future when new statutory provisions outlined in Senate Bill 11-052 take effect requiring performance-based funding for institutions and greater scrutiny of institutional performance in meeting statewide goals.

- **Lack of Well-Designed Contract Goals, Timely Monitoring, and Valid Data Limit the Department's Ability to Evaluate Performance and Promote Accountability.** The Department does not currently have a sufficient basis upon which to evaluate whether institutions meet State goals. As a result, the Department will not be able to ensure that State funds are used for the purposes intended in the contracts, once funding is tied to the performance contracts.

- **The New the Performance-Based Funding Requirement Elevates the Need for More Substantive Contract Goals and Better Contract Management.** In the future, a portion of institutions' funding will be based on their performance in achieving contract goals. The performance-based funding method in statute [Section 23-1-108(1.9), C.R.S.], establishes a finite pool of "outcome-based" funding available to reward successful institutions; the amount dedicated to performance-based funding will be at least $14 million annually and has the potential to increase over time, particularly if State funding reaches or exceeds restored funding levels. The current goals in contracts and monitoring processes will be incongruent with a performance-based funding model. Monitoring performance only at the end of a lengthy contract term, such as five years, will not be feasible. Monitoring will need to include annually compiling accurate and reliable performance data and assessing it against annual and longer-term performance goals.

Recommendation No. 4:

The Department of Higher Education should continue to take steps to improve the effectiveness of College Opportunity Fund Program performance contracts by:

a. Working with the Commission on Higher Education to implement policies and guidance for the Department and institutions to follow when developing clear, measurable, and meaningful short- and long-term contract goals.

b. Coordinating with institutions to establish goals that are clearly defined, measurable, and meaningful. This should include periodically reviewing goals to determine if they are reasonable given changes in the academic environment and statute.

c. Implementing policies and procedures to monitor institutional compliance with performance contracts in a more timely manner, at least annually. This should include working collaboratively with institutions to identify and address the factors that affect institutions' success in meeting contract goals.

d. Ensuring that the data used to measure institutional performance is verified for accuracy.

Department of Higher Education Response:

a. Agree. Implementation date: September 2012

The Department is currently pursuing steps that will improve the effectiveness of the COF Program performance contracts. Pursuant to Senate Bill 11-052, the Department, in conjunction with the Colorado Commission on Higher Education, (CCHE or Commission) is in the process of developing a thorough Statewide Master Plan for the state system of higher education. The Master Plan will include measurable and quantifiable statewide goals and will be the foundation for updated institution performance contracts.

b. Agree. Implementation date: December 2012

The Department and Commission are working in collaboration with the institutions and in recent months have received regular input from senior academic, student services, and finance staff at the institutions to develop clear and meaningful goals and relevant performance measures supporting those goals. The Statewide Master Plan is due to the General Assembly by September 2012 and anticipates regular reporting and assessment that will inform the relevancy of the goals going forward.

c. Agree. Implementation date: December 2013

The statewide goals articulated in the Master Plan are statutorily required to be implemented through performance contracts negotiated with individual governing boards by December, 2012. This process includes the determination of agreed upon performance metrics which anticipate collaboratively monitoring and assessing progress and success on an annual basis.

d. Agree. Implementation date: December 2012

The Department agrees that ensuring that the data used for the purposes of measuring the performance of institutions is accurate, consistent, and meaningful, is an important aspect of improving the effectiveness of the COF Program. As part of the process associated with developing the Statewide Master Plan for higher education required by Senate Bill 11-052, the Department has collaborated with the institutions to determine that the existing, uniform and verifiable SURDS data set will be used for measuring performance. This data is identical to the information the institutions submit to the Federal U.S. Department of Education for meeting Title IV financial aid eligibility requirements. The data entered into SURDS by the institutions is verified and attested to by the intuitions as well as verified by the Department through various means including error testing and validation.

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