



STATE OF COLORADO

DEPARTMENT OF HIGHER EDUCATION

John Hickenlooper
Governor

Lt. Gov. Joseph A. Garcia
Executive Director

June 4, 2013

Dianne E. Ray, CPA
State Auditor
Colorado Office of the State Auditor
200 East 14th Avenue, 2nd Floor
Denver, CO 80203

Re: Audit #2162: The College Opportunity Fund

Dear Ms. Ray:

In response to your request, we have prepared a status report regarding the implementation of the audit recommendations contained in the June 2012 *Performance Audit of the Implementation of the College Opportunity Fund*. The attached report provides a brief explanation of the actions taken by the Department of Higher Education to implement each recommendation.

The Department has implemented nearly all the recommendations made in the audit. Any remaining recommendations will be implemented by the end of the summer. The Department believes that by addressing issues identified in the audit, it has made important progress towards improving the administration of the College Opportunity Fund program in general.

If you have any questions, please contact Mark Cavanaugh at (303) 866-4198 or by email at mark.cavanaugh@state.co.us.

Sincerely yours,

Matt Gianneschi
Deputy Executive Director

AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME: Implementation of the College Opportunity Fund, Performance Audit

AUDIT NUMBER: 2162

DEPARTMENT/AGENCY: Department of Higher Education

DATE: May 2013

SUMMARY INFORMATION

Recommendation Number	Agency's Response <i>(Agree, Partially Agree, Disagree)</i>	Original Implementation Date <i>(as listed in the audit report)</i>	Implementation Status <i>(Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable)</i>	Revised Implementation Date
1a	Agree	November 2012	Implemented	
1b	Agree	December 2012	Partially Implemented	July 2014
1c	Agree	December 2012	Implemented	
2a	Agree	February 2013	Implemented	
2b	Agree	February 2013	Partially Implemented	August 2013
3a	Agree	February 2013	Implemented	
3b	Partially Agree	February 2013	Implemented	
4a	Agree	September 2012	Implemented and Ongoing	
4b	Agree	December 2012	Implemented and Ongoing	
4c	Agree	December 2013	Implemented and Ongoing	
4d	Agree	December 2012	Implemented and Ongoing	

DETAIL OF IMPLEMENTATION STATUS

Recommendation No.: 1a

Original Recommendation in Audit Report:

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.

Agency's Response: a. Agree. Implementation date: November 2012

Agency's Written Response in Audit Report:

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.

Current Implementation Status of Recommendation: Implemented.

Agency's Comments on Implementation Status of Recommendation:

The Department's Fiscal Year 2013-14 budget request was submitted to the General Assembly on November 1, 2012 as part of Governor Hickenlooper's overall submission. In addition to the Department's budget request, the Colorado Commission on Higher Education prepared and submitted a letter to the Joint Budget Committee in which the cost to adjust COF stipend funding to reflect the rate of inflation and eligible enrollment growth was estimated.

The letter prepared and submitted by the Commission advised the General Assembly that it would need to appropriate an additional \$149 million in Fiscal Year 2013-14 to the COF stipend to meet the requirement that it keep pace with inflation as well as the growing enrollment of the eligible population since the implementation of COF in FY 2005-06. This funding level excludes fee-for-service contract levels. The COF fee-for-service contracts were held flat from Fiscal Year 2005-06 to Fiscal Year 2013-14. Assuming no increase to their scope, total General Fund necessary to meet inflation of fee-for-service contracts would be an additional \$262 million. The total amount of General Fund necessary to meet the inflation and enrollment requirements would have been \$675 million (\$413 million for the COF stipend and \$262 million for COF fee-for-service contracts).

Recommendation No.: 1b

Original Recommendation in Audit Report:

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:

- 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.

Agency's Response: b. Agree. Implementation date: December 2012

Agency's Written Response in Audit Report:

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.

Current Implementation Status of Recommendation: Partially Implemented. New Implementation Date: July 2014

Agency's Comments on Implementation Status of Recommendation:

The Department of Higher Education has engaged with representatives from the governing boards in an evolving conversation about fee-for-service contracts and the College Opportunity Fund system in general. This conversation includes discussion of the accuracy and usefulness of the fee-for-service contract categories and how to better represent what is being purchased by the State in the contracts. However, due to the larger issues surrounding higher education funding, namely TABOR Enterprise status, no final resolutions have, as yet, been determined.

The Department continues to evaluate the issue of fee-for-service contract categories as they relate to the larger issue of the College Opportunity Fund and are being specifically addressed through development of a performance based funding plan as required by Section 23-1-108(1.9)(a)(II), C.R.S. The Department will continue working on this recommendation this summer but may need up to the end of the fiscal year to fully address it.

In an effort to foster better transparency in the fee-for-service contract process, the Department recently began posting all the contracts on its website along with a “key” that breaks each down in a tabulated format. Please see the following link for more information:

<http://higher.ed.colorado.gov/Finance/Budget/FFS.html>

Recommendation No.: 1c

Original Recommendation in Audit Report:

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:

- 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.

Agency’s Response: c. Agree. Implementation date: December 2012

Agency’s Written Response in Audit Report:

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.

Current Implementation Status of Recommendation: Implemented.

Agency’s Comments on Implementation Status of Recommendation:

The Department of Higher Education consulted with representatives of the governing boards regarding this issue. Consensus was that the proper time to adjust appropriations to reflect actual enrollment would be for the fiscal year in which the funding and enrollment changes occur. However, in light of the timing of the submission of final enrollment data and COF billings, this would require adjusting appropriations at the very end of the fiscal year. This timing would make it difficult to either spend increased funding or to make necessary

reductions for funding decreases within the remainder of the fiscal year. Representatives further agreed that adjustments in the next fiscal year based on enrollment changes in the past one appears inconsistent with the intent of the COF statute, which only addresses fully funding enrollment within current fiscal years. Also, from a practical standpoint, adjustments in funding for enrollment in the year after they occur would potentially create an ongoing discrepancy whereby each fiscal year would require more significant adjustments to its funding in attempts to try to fit the prior year's adjustment into the current enrollment level.

Due to the issues identified above, governing board representatives did not reach consensus on a process for budgetary adjustments based on enrollment as recommended in the audit. Nonetheless, the Department will continue to explore these issues with the governing boards.

Recommendation No.: 2a

Original Recommendation in Audit Report:

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.

Agency's Response: a. Agree. Implementation date: February 2013

Agency's Written Response in Audit Report:

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.

Current Implementation Status of Recommendation: Implemented.

Agency's Comments on Implementation Status of Recommendation:

A Policy Finance Officer position was filled in August of 2012. Among the responsibilities of this position is the review of COF audit procedures regarding eligibility and waiver use compliance. These policies were revised and updated recently. To fully implement the

recommendation, staff developed a risk-based selection process to routinely select institutions for compliance review. The following language was added to the COF guidelines:

“The June 2012 College Opportunity Fund performance audit recommended that the Department of Higher Education perform periodic risk-based audit and data reviews of the institutions’ COF processes. The Department will review the accuracy of institution’s COF stipend billing through a Compliance Verification Review as per CCHE Policy (Section II, D, 3.00). Working with institutional staff involved with the COF program, the Department will review various files and data to ensure that an institution’s COF billing complies with statute, including eligible students, eligible courses and institutional waiver procedures. As part of the review, institutions should provide all requested files and data to DHE and have staff available for questions. The Department will submit a draft report of all findings to the institutions prior to a formal clearings meeting and submission of the final report.

DHE will use the following criteria to determine which institutions will undergo a Compliance Verification Review:

1. The number of CCHE appeal and waiver applications received in a fiscal year; and
2. Amount of time elapsed since last review.”

In addition, within existing resources the Department recently developed and filled a Student Support Program Specialist position that is responsible for monitoring and administering various programs administered in the Department, including the COF waiver process. This position receives, tracks, processes, and resolves COF waivers and appeal requests from both students and institutions. Ultimately, the Student Support Program Specialist will also be responsible for implementing the review process outlined above. This position will resume COF compliance audits in the summer of 2013. Tentative plans are to conduct two audits based on the selection criteria outlined above.

The Student Support Program Specialist will provide significantly more opportunity for Department outreach and training with institution-level staff regarding compliance and best practices for the COF waiver process. To this end, the Student Support Program Specialist is currently planning the first ever statewide conference for institutional COF representatives to discuss the waiver and appeals process, review compliance expectations, and share best practices regarding the waiver and appeal processes. The conference is scheduled to occur in June 2013.

Recommendation No.: 2b

Original Recommendation in Audit Report:

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:

- 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.

Agency's Response: b. Agree. Implementation date: February 2013

Agency's Written Response in Audit Report:

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.

Current Implementation Status of Recommendation: Partially Implemented. New Implementation Date: August 2013

Agency's Comments on Implementation Status of Recommendation:

The Department's Finance Policy Officer, in consultation with the Department's Student Support Program Specialist, is currently developing the follow-up process for risk-based audit findings and reviewing the possible issues with stipends as identified in the audit. The Department anticipates full implementation of this recommendation by August 2013.

Recommendation No.: 3a

Original Recommendation in Audit Report:

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.

Agency's Response: a. Agree. Implementation date: February 2013

Agency's Written Response in Audit Report:

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

Current Implementation Status of Recommendation: Implemented.

Agency's Comments on Implementation Status of Recommendation:

The COF Guidelines were updated to include additional guidance for the “one-year” waiver. Specifically, the COF Guidelines regarding “one-year” waivers were amended to read as follows:

“The “one-year” requirement of the waiver has never been defined in statute. The Department has interpreted this to mean that institutions must make the credits approved through an institutional waiver available for no more than 12 consecutive months. For example, if an institutional waiver is granted to a student for 20 credits, beginning in September 2013, all 20 credits must be used by September 2014. It does not matter if the student uses all of the credits from an institutional waiver in one term or three terms, so long as they are only made available for 12 consecutive months. Students who have been granted and used an institutional waiver may apply for a commission waiver after they have used all of their institutionally waived credits or the 12 month period has expired.

Institutions must comply with the requirement that waivers are limited to five percent of eligible undergraduate students but are free to establish additional rules and regulations as needed. The Commission encourages institution policies that help students graduate within the 145 credit hour COF stipend lifetime limit, and make the waiver process open and accessible in keeping with the state goal to increase degree attainment.”

Recommendation No.: 3b

Original Recommendation in Audit Report:

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:

- 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.

Agency's Response: b. Partially Agree. Implementation date: February 2013

Agency's Written Response in Audit Report:

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.

Current Implementation Status of Recommendation: Implemented.

Agency's Comments on Implementation Status of Recommendation:

Please see the Department's status update for Recommendation No. 3a for more information.

Recommendation No.: 4a

Original Recommendation in Audit Report:

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.

Agency's Response: a. Agree. Implementation date: September 2012

Agency's Written Response in Audit Report:

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.

Current Implementation Status of Recommendation: Implemented and Ongoing.

Agency's Comments on Implementation Status of Recommendation:

The Colorado Commission on Higher Education released "Colorado Competes: A Completion Agenda for Higher Education" in October 2012. This master plan for higher education in Colorado was prepared to fulfill Senate Bill 11-052 requirements. The plan contains four overarching goals that form the basis for measurement in the individual governing board performance contracts. A link to the full plan is found below.

http://highered.colorado.gov/Publications/General/StrategicPlanning/MasterPlan2012/Master_Plan_Final.pdf

These goals became the basis upon which all governing boards developed their performance contracts. All performance contracts have short-term (annual) performance targets that are tied to longer-term (five-year) statewide goals.

Recommendation No.: 4b

Original Recommendation in Audit Report:

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

- 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.

Agency's Response: b. Agree. Implementation date: December 2012

Agency's Written Response in Audit Report:

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.

Current Implementation Status of Recommendation: Implemented and Ongoing.

Agency's Comments on Implementation Status of Recommendation:

The Colorado Commission on Higher Education released its Master Plan, "Colorado Competes: A Completion Agenda for Higher Education", in October 2012. In addition, the Commission negotiated individual performance contracts with each governing board in January 2013 using the Master Plan goals as the basis. Performance contracts will be reviewed and assessed annually to determine progress by each of the governing boards. Outcomes may impact performance funding distribution as outlined in Section 23-1-108(1.9)(a)(I), C.R.S.

In addition, all performance contracts contain a provision that allows for governing boards and the Department to review the usefulness and reasonableness of the performance metrics after the first two years of implementation. If changes to performance metrics are warranted, the Commission and the governing board may mutually consent to make adjustments to them as appropriate.

Recommendation No.: 4c

Original Recommendation in Audit Report:

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

- 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.

Agency's Response: c. Agree. Implementation date: December 2013

Agency's Written Response in Audit Report:

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.

Current Implementation Status of Recommendation: Implemented and Ongoing.

Agency's Comments on Implementation Status of Recommendation:

The Colorado Commission on Higher Education negotiated individual performance contracts with each governing board using the Master Plan goals as the basis. These contracts will be reviewed and assessed annually to determine progress by each of the governing boards.

Outcomes may impact performance funding distribution as outlined in Section 23-1-108(1.9)(a)(I), C.R.S. A research officer, approved through the Fiscal Year 2013-14 budget process, will be charged with monitoring the performance contracts, among other duties, and is expected to be hired in June 2013.

Recommendation No.: 4d

Original Recommendation in Audit Report:

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

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

Agency's Response: d. Agree. Implementation date: December 2012

Agency's Written Response in Audit Report:

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 institutions as well as verified by the Department through various means including error testing and validation.

Current Implementation Status of Recommendation: Implemented and Ongoing.

Agency's Comments on Implementation Status of Recommendation:

Pursuant to Sections 23-1-108 (1.5) and (1.7), C.R.S., the Colorado Commission on Higher Education has developed both a statewide Master Plan and individual performance contracts for each of the governing boards. Measurement of the goals agreed to in both the Master Plan and the performance contracts will primarily be performed using the uniform SURDS data referred to in the original Department response discussed above.