Scholarship and Loan Forgiveness Programs
CollegeInvest
Department of Higher Education

Performance Audit
August 2009

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STATE OF COLORADO

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Members of the Legislative Audit Committee:

This report contains the results of a performance audit of scholarship and loan forgiveness programs at CollegeInvest. The audit was conducted pursuant to Section 23-3.1-221, C.R.S., which authorizes the State Auditor to investigate the affairs of CollegeInvest. The report presents our findings, conclusions, and recommendations, and the responses of CollegeInvest and the CollegeInvest Board.

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Glossary of Terms and Abbreviations

Board - CollegeInvest Board. A nine-member board that oversees CollegeInvest.

Department - Department of Higher Education. A principal department in Colorado state government whose mission is to improve the quality of, ensure the affordability of, and promote access to postsecondary education for the people of Colorado.

GRADS - Mile High Graduate Rebate Award for Denver Students. Loan forgiveness program developed to promote postsecondary education for Denver County high school graduates.

GRP - El Paso County Graduation Reward Program. Loan forgiveness program developed to promote postsecondary education for El Paso County high school graduates.

LIFT Teachers - Loan Forgiveness Program for Teachers. Loan forgiveness program developed to encourage individuals to teach in low-income, rural schools or in certain fields, such as math and science.

LIFT Nursing – Loan Forgiveness Program for Nursing Teachers. Loan forgiveness program developed to encourage individuals to enter the teaching field in nursing.

Trust Fund - Early Achievers Scholarship Trust Fund. Trust fund that supports the Early Achievers Scholarship program.

STATE OF COLORADO
OFFICE OF THE STATE AUDITOR **REPORT SUMMARY**
SALLY SYMANSKI, CPA
State Auditor

Scholarship and Loan Forgiveness Programs
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Purpose and Scope

Our audit focused on CollegeInvest's scholarship and loan forgiveness programs. We evaluated the administration of scholarship and loan forgiveness programs, the management of scholarship trust fund monies, and administrative expenses. We performed audit work from February to August 2009, including contracting with Buck Consultants to conduct a portion of the audit work. We gratefully acknowledge the assistance and cooperation extended by management and staff at CollegeInvest.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Overview

CollegeInvest, a division of the Colorado Department of Higher Education, was established by the General Assembly to increase students' access to higher education by (1) issuing bonds, whose proceeds are to be used for originating and/or purchasing student loans, (2) administering the State's federal College Savings Plans (also known as "529 plans"), and (3) administering various scholarship and loan forgiveness programs. CollegeInvest generally does not receive an appropriation from the General Assembly; it pays for its operations through profits earned on its student loans, administrative fees received for managing the State's College Savings Plans, and investment income. At the end of Fiscal Year 2009 CollegeInvest's net assets in all funds totaled about $3 billion.

CollegeInvest administers several scholarship and loan forgiveness programs. The Early Achievers Scholarship, created by Senate Bill 05-003, is one of CollegeInvest's major scholarship programs and has an associated Trust Fund with approximately $67 million in net assets at the end of Fiscal Year 2009. CollegeInvest's other large scholarship programs are the Service Scholarship and Opportunity Scholarship, which are sweepstakes scholarships awarded each year. CollegeInvest also administers several loan forgiveness programs, including the Loan Forgiveness Program for Teachers and Loan Forgiveness Program for Nursing Teachers, which are authorized in statute, and

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the Mile High Graduate Rebate Award for Denver Students and the El Paso County Graduation Reward Program.

Key Findings

Scholarship and Loan Forgiveness Programs

We evaluated the scholarship and loan forgiveness programs administered by CollegeInvest to determine if they are successful in increasing access to higher education. Overall, we found that CollegeInvest could significantly improve management of and participation in its scholarship and loan forgiveness programs.

Trust Fund disbursements. CollegeInvest did not follow its policy of annually disbursing 5 percent of the Early Achievers Scholarship Trust Fund's previous year-end fair market value in scholarships or its plan to disburse 1.25 percent of the Trust Fund's value per cohort during the "ramp up" phase of the scholarship program. In Fiscal Year 2009, the first year of funding for Early Achievers Scholarships, CollegeInvest disbursed $91,000 in scholarships to 76 students, which represented a 0.1 percent disbursement. Further, we project that CollegeInvest will fall short of its Trust Fund disbursement objectives until Fiscal Year 2013.

Program design and administration. The current design and administration of the Early Achievers Scholarship program is not achieving the goal of increasing access to postsecondary education in an efficient and cost-effective manner. For example, although the Early Achievers program was envisioned as an "early commitment" program in which middle school and early high school students commit to doing well in high school in exchange for guaranteed financial aid, the program lacks key elements of successful early commitment programs in other states, such as guaranteed funding. In addition, the program has cumbersome registration rules, lacks controls to ensure that scholarship recipients meet requirements, puts a burden on higher education institutions for identifying students and verifying eligibility, and has high administrative costs relative to scholarship disbursements.

Trust Fund management. The CollegeInvest Board does not always sufficiently document the rationale behind investment decisions related to the Trust Fund that deviate from its stated investment policy. Specifically, the Board voted in February 2008 to allow CollegeInvest to use all but $10 million of Trust Fund monies to purchase loans from CollegeInvest's student loan portfolio. The Board reported during the audit that this decision was made primarily to benefit the Trust Fund by moving its funds to more conservative investments, in light of worsening market conditions. However, based on our review of Board minutes, CollegeInvest's financial statements, and comments from CollegeInvest management, it appears the primary purpose of this decision was to bolster CollegeInvest's student loan operations by providing liquidity for originating loans, which would not primarily benefit the Trust Fund. In addition, using Trust Fund monies to buy CollegeInvest student loans raises significant conflict-of-interest concerns.

Service Scholarship and Opportunity Scholarship. Between Fiscal Years 2005 and 2009 CollegeInvest failed to give out 330 of the 565 (58 percent) Service Scholarships and Opportunity Scholarships that had been advertised and budgeted and therefore failed to fund $860,000 out of $1.8 million available. As a result, the odds of winning posted in the official sweepstakes rules appeared overstated and the programs' advertising may have been misleading.

Loan forgiveness program participation. Participation in CollegeInvest's loan forgiveness programs appears low. For example, the Loan Forgiveness Program for Nursing Teachers has only served 11 participants since the program began in Fiscal Year 2007. We also identified several weaknesses in CollegeInvest's administration of loan forgiveness programs. For example, CollegeInvest does not effectively target potential candidates for the loan forgiveness programs and, for some programs, requires that applicants hold a CollegeInvest loan to participate, which presents a barrier to participation.

Administrative Expenses

During Fiscal Years 2008 and 2009 CollegeInvest incurred over $12 million in administrative expenses, not including employee salaries and benefits. We reviewed CollegeInvest's accounting for and administrative controls over expenses and found that they were not sufficient to ensure that expenses were reasonable and conformed to applicable rules and policies.

Questionable expenses. Out of 40 administrative expenses made by CollegeInvest during Fiscal Years 2008 and 2009 that we reviewed, seven (18 percent) were questionable. For example, two of the expenses were donations, which are generally prohibited by the Colorado Constitution; two of the expenses involved meals for CollegeInvest staff, Board members, and Board members' families which did not fall within the guidelines for official functions and training functions in which meals can be provided; and two of the expenses represented a conflict of interest. We also found problems with insufficient supporting documentation and inadequate approvals or authorizations for 21 (53 percent) of the expenses. The significant error rates raise concerns about CollegeInvest's management of administrative expenses.

Cost allocation. CollegeInvest does not allocate administrative expenses consistently or based on the benefits derived by individual programs. For example, one of its College Savings Plans is not included in its direct cost allocations and the Early Achievers Scholarship Trust Fund is not included in its indirect cost allocations. CollegeInvest also does not have written cost-sharing agreements in place for all the costs it shares with College Assist, the State's student loan guaranty agency.

Our recommendations and responses from CollegeInvest and the CollegeInvest Board can be found in the Recommendation Locator and in the body of the report.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	19	Ensure compliance with its disbursement objective for the Early Achievers Scholarship Trust Fund by developing a contingency plan for disbursing funds in years in which scholarships given to Early Achievers Scholarship program applicants do not reach this objective.	CollegeInvest	Partially Agree	March 2010
2	25	Work with the CollegeInvest Board to ensure that the Early Achievers Scholarship program is meeting its goal of increasing access for low income students to postsecondary education in the most cost-effective and efficient way by (a) analyzing alternative ways of administering the program and disbursing funds, and (b) making recommendations to the CollegeInvest Board on the best option for achieving program goals. Adopt guidelines as necessary to implement any changes in the program, and, if necessary, seek legislative change.	CollegeInvest and CollegeInvest Board	Agree	February 2011
3	30	Ensure that it demonstrates fiduciary oversight of the Early Achievers Scholarship Trust Fund by (a) documenting the reasons behind deviations from the Board's investment policy, (b) seeking independent advice when making investment decisions that would result in deviations from its investment policy or when considering investment decisions involving related parties, and (c) considering revising its investment policy to prohibit investment of Trust Fund monies in any of CollegeInvest's other operations, including CollegeInvest's student loan portfolio.	CollegeInvest Board	Agree	December 2009
4	33	Develop methods to ensure that the number of advertised Service Scholarships and Opportunity Scholarships are given out and amounts allocated annually for the scholarships are used.	CollegeInvest	Agree	January 2010

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
5	37	Ensure that the Loan Forgiveness Program for Teachers meets its goals of recruiting and retaining teachers in high-demand disciplines by (a) allowing existing LIFT Teachers participants the option of choosing to receive their loan forgiveness payments for the year as a lump-sum annual payment that will be applied only to loan principal or as a monthly payment that covers both principal and interest, (b) changing the repayment process so that all new LIFT Teachers participants receive their loan forgiveness payments as a lump-sum annual payment applied to loan principal only, (c) reopening LIFT Teachers enrollment until the remainder of the CollegeInvest Board's initial $4 million commitment to LIFT is exhausted and (d) ensuring that LIFT Teachers participants do not receive payments exceeding $2,000 annually.	CollegeInvest	Partially Agree	March 2010
6	42	Improve the effectiveness of and participation in all current and future loan forgiveness programs by (a) allowing qualifying applicants with a federal student loan, regardless of lender, to participate in these programs, and working with the General Assembly as necessary to change statutory requirements for existing programs; (b) developing outreach strategies that directly contact potential participants; (c) creating separate codes in its accounting system for each loan forgiveness program that would track funds allocated to the programs and the programs' administrative costs and monitoring these for reasonableness; (d) developing performance measures for each program, evaluating whether the programs are meeting those measures, and making improvements as needed; and (e) ensuring that all future loan forgiveness recipients receive payments on an annual basis that are applied to loan principal only.	CollegeInvest	Partially Agree	N/A–Only in conjunction with a new loan forgiveness program.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
7	44	Calculate excess reserves annually and work with the CollegeInvest Board to develop a plan in which excess reserves are funneled into scholarship and/or loan forgiveness programs once excess reserves are determined.	CollegeInvest and CollegeInvest Board	Partially Agree	Implemented
8	50	Strengthen procedures for ensuring administrative expenses are reasonable and necessary by (a) expanding conflict-of-interest policies to ensure that the selection of sponsorships does not reflect or create the appearance of favoritism, (b) implementing policies that establish an upper limit on the value of promotional items given to businesses and their representatives and on the amount per person that will be spent on meals during official and training functions, (c) ensuring that it does not pay for staff meals unless the meals are related to official or training functions or to business-related travel, (d) obtaining a formal opinion from the Attorney General's office regarding whether CollegeInvest has the authority to hire a legislative lobbyist, and (e) ensuring that donations are not being made by expanding its documentation of sponsorship expenses.	CollegeInvest	Partially Agree	December 2009

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
9	54	Improve internal controls over administrative expenses by (a) ensuring that all expenses have adequate supporting documentation as required by state fiscal rules and internal policies, (b) ensuring that staff approve all expenses in accordance with the expense-approval policy and updating this policy, as necessary, when the staffing organization changes, (c) prohibiting employees from approving expenses from which they will personally benefit, (d) ensuring that contracts are executed with all vendors in accordance with its internal policies, (e) requiring that all changes to internal policies are reviewed and approved by upper management, and (f) tracking the receipt and disbursement of all benefits received from sponsorship agreements and ensuring that staff use of these benefits does not violate Amendment 41.	CollegeInvest	Agree	December 2009
10	59	Improve direct and indirect allocation of costs by (a) implementing an internal policy that provides specific guidance on the direct allocation of administrative expenses among programs, (b) ensuring that all programs are included in direct and indirect allocations, (c) reevaluating the policy of using the Borrower Benefit Fund to pay for some administrative expenses rather than allocating them to the funds that benefit from the expenses, and (d) ensuring that all costs shared with College Assist are allocated to each organization in accordance with an approved written agreement between the two organizations that accurately reflects the benefits incurred by each organization.	CollegeInvest	Partially Agree	June 2010

Overview of CollegeInvest

Chapter 1

CollegeInvest, a division of the Colorado Department of Higher Education (Department), is a self-supporting state enterprise established by the General Assembly to increase students' access to higher education. Increasing this access is important because studies show that college graduates typically earn significantly more over their lifetimes than do high school graduates. Statute authorizes CollegeInvest to perform several functions related to providing greater access to higher education, including:

- Issuing bonds, whose proceeds are to be used for originating and/or purchasing student loans [Section 23-3.1-206, C.R.S.].

- Administering the State's federal College Savings Plans (also known as "529 plans") [Sections 23-3.1-206.7 and 23-3.1-304, C.R.S.].

- Administering various scholarship and loan forgiveness programs [Sections 23-3.1-206 and 23-3.1-206.9, C.R.S.].

Both the Department and the CollegeInvest Board (Board) provide oversight of CollegeInvest's activities. The Executive Director of the Department appoints the director of CollegeInvest. The Board consists of nine members appointed by the Governor and approved by the Colorado Senate for four-year terms. The only statutory requirement for Board members is that they be residents of the state.

Operations

CollegeInvest divides its operations into three main parts: Student Loan Program Funds, Prepaid Tuition Fund, and College Savings Plan Funds. The **Student Loan Program Funds** include the following separate funds:

- **Borrower Benefit Fund.** CollegeInvest uses this fund for payment of general and administrative expenses, which are then allocated as appropriate to CollegeInvest's other funds. The Board has also designated monies from this fund for other purposes, such as providing reserves for operating expenses and the Prepaid Tuition Fund (discussed below), funding scholarship trust fund and loan forgiveness programs, and funding certain debt issuance costs.

- **Bond Funds.** This fund captures CollegeInvest's student loan activities. Specifically, this fund issues tax-exempt and taxable financing, the proceeds of which CollegeInvest uses to originate or purchase student loans.

- **Early Achievers Scholarship Trust Fund (Trust Fund).** This fund provides scholarships to low-income students who maintain at least a 2.5 grade point average in high school. This statutory program is discussed in more detail in Chapter 2.

- **Nursing Teacher Loan Forgiveness** and **Healthcare Provider Loan Forgiveness Funds.** These funds are designed to increase the supply of nursing teachers and healthcare providers, respectively, by helping them repay their student loans. These programs are also described in more detail in Chapter 2.

The **Prepaid Tuition Fund** was established in 1997 as a 529 college savings plan to help families save for future college education expenses. It closed to new investors in 2002. It offered an annual enrollment period during which families could purchase prepaid tuition contracts.

The **College Savings Plan Funds** are the State's current 529 plans available to families. These plans allow families to invest on a tax-favored basis toward "qualified" expenses for students attending institutions of higher education. The three plans available (Scholars Choice, Stable Value Plus, and Direct Portfolio) offer a range of fixed-income and equity investment options for families.

Funding

CollegeInvest generally does not receive an appropriation of state general funds from the General Assembly. It pays for most of its operations through three main sources: (1) "profits" earned on its student loans (i.e., the difference between the interest charged on the student loans it makes and the interest it must pay on the bonds issued to finance those loans), (2) administrative fees received for managing the State's College Savings Plan Funds, and (3) investment income. As the table below shows, at the end of Fiscal Year 2009 CollegeInvest's net assets in all funds totaled about $3 billion. CollegeInvest's net assets decreased by about $411 million during Fiscal Year 2009, mainly due to deteriorating credit and equity market conditions.

Ending Net Assets
Fiscal Years 2005 Through 2009
(Dollars in Millions)

Fund	2005 (audited)	2006 (audited)	2007 (audited)	2008 (audited)	2009 (unaudited)	Percentage Change, FY05-09
Student Loan Program						
Borrower Benefit	$26.7	$11.9	$8.5	$8.9	$7.8	-70.8%
Bond Funds	116.2	95.5	111.7	105.1	106.9	-8.0
Early Achievers Scholarship Trust Fund[1]	0	76.9	80.8	75.4	67.4	N/A
Nursing Teacher Loan Forgiveness	0	0	.2	.3	.5	N/A
Healthcare Provider Loan Forgiveness	0	0	0	.1	.1	N/A
Total	**$142.9**	**$184.3**	**$201.2**	**$189.8**	**$182.7**	**27.9%**
Prepaid Tuition Fund	**$0**	**($2.3)**	**($1.9)**	**($1.5)**	**($1.1)**	**N/A**
College Savings Plan						
Scholars Choice	$1,622.8	$1,964.0	$2,524.1	$2,345.4	$1,954.3	20.4%
Stable Value Plus	21.6	22.9	23.5	25.7	29.2	35.2
Direct Portfolio	333.8	477.2	710.5	829.2	812.2	143.3
Total	**$1,978.2**	**$2,464.1**	**$3,258.1**	**$3,200.3**	**$2,795.7**	**41.3%**
TOTAL ALL FUNDS	**$2,121.1**	**$2,646.1**	**$3,457.4**	**$3,388.6**	**$2,977.3**	**40.4%**

Source: Office of the State Auditor's analysis of audited financial statements (for Fiscal Years 2005 through 2008) and revenues and expenses reported by CollegeInvest (for Fiscal Year 2009).

[1] The Scholarship Trust Fund was funded in part by transfers of $36 million from the Bond Funds and $13.9 million from the Borrower Benefit Fund in Fiscal Year 2006.

As of February 2009, CollegeInvest had 37 FTE in its organizational chart. The General Assembly does not appropriate FTE to CollegeInvest.

Audit Scope and Methodology

Our audit focused on CollegeInvest's administration of its scholarship and loan forgiveness programs. We determined whether these programs are meeting legislative intent by expanding access to higher education and whether they are operating efficiently and effectively. We also contracted with Buck Consultants to determine whether CollegeInvest's and the Board's management of the Early Achievers Scholarship Trust Fund is fulfilling CollegeInvest's fiduciary duties to the Trust Fund.

Our audit also examined CollegeInvest's administration expenses across all programs, including whether CollegeInvest was charging direct and indirect costs to the correct funds. Our audit did not review CollegeInvest's student loan operations.

Scholarship and Loan Forgiveness Programs

Chapter 2

Statute [Sections 23-3.1-206 and 23-3.1-206.9, C.R.S.] authorizes CollegeInvest to fund and administer scholarship and loan forgiveness programs. Currently CollegeInvest administers several scholarship and loan forgiveness programs. We evaluated these programs to determine if they are successful in increasing access to higher education. Overall, we found that CollegeInvest could significantly improve participation in its scholarship and loan forgiveness programs. This chapter provides recommendations that CollegeInvest can use to ensure that more Colorado residents have access to higher education and, therefore, the potential for greater earning power over their lifetimes.

Scholarship Programs

The Early Achievers Scholarship is one of CollegeInvest's major scholarship programs. The Early Achievers Scholarship program and Trust Fund were created by Senate Bill 05-003 for the purpose of "increasing access to postsecondary education." CollegeInvest contributed nearly $50 million to the Trust Fund from excess reserves that it had accumulated in both the Borrower Benefit Fund and the Bond Funds. College Assist, a sister organization to CollegeInvest that is led by the same director and is the designated guarantor of federal student loans disbursed in the state, contributed $25 million to the Trust Fund using proceeds from the sale of student loan servicing activities within College Assist. The fiscal note for Senate Bill 05-003 stated that the interest from the Trust Fund would be used to fund scholarships and anticipated that $2.5 million would be available for 2,200 students annually.

CollegeInvest's Service Scholarships and Opportunity Scholarships represent its other significant scholarship programs. CollegeInvest has committed between $200,000 and $400,000 annually in revenue from the Bond Funds and College Savings Plan Funds to finance these scholarships.

We reviewed the Early Achievers, Service, and Opportunity Scholarships and found problems with the disbursement and structure of all the scholarship programs and the oversight of the Early Achievers Scholarship Trust Fund, as described in the next four sections.

Early Achievers Scholarship Program

Statute [Section 23-3.1-206.9, C.R.S.] establishes the Early Achievers Scholarship Trust Fund and outlines basic requirements for the scholarship program. Specifically, the scholarship is available for undergraduate students who (1) attend at least part-time a college or university that accepts the College Opportunity Fund in-state tuition stipend or a qualified junior college or vocational school, (2) demonstrate financial need by qualifying for a federal Pell grant (which provides need-based grants to low-income students), and (3) have at least a 2.5 high school grade point average. Statute directed the Board to implement the program starting with the high school graduating class of 2008 (i.e., students who would enter college during the 2008-2009 academic year). CollegeInvest started outreach for the program and began accepting registrations in the 2005-2006 academic year. As will be discussed later, this program was envisioned to be modeled after so-called "early commitment" programs, in which students in middle school or early high school make a commitment to do well in high school in exchange for college financial aid. The Board therefore established policy to require students to register for the scholarship when they are in 7th, 8th, or 9th grade. The first students registered for the program in the 2005-2006 academic year and received scholarship funding in the 2008-2009 academic year. Board policy also establishes maximum and minimum scholarship award amounts based on the student's level of need and on whether the student is full time or part time. The maximum scholarship award is $1,500 per year for up to five years.

As shown in the chart below, the Trust Fund had net assets of approximately $75 million at the start of Fiscal Year 2009 and ended the year with net assets of approximately $67 million. Senate Bill 09-279 required CollegeInvest to transfer $15 million of the Trust Fund's net assets to the General Fund on July 1, 2009, leaving a balance of approximately $52 million. The Trust Fund experienced net losses from investments of approximately $5.2 million in Fiscal Year 2008 and $7.7 million in Fiscal Year 2009. CollegeInvest distributed the first scholarships, totaling $91,000, in Fiscal Year 2009.

Early Achievers Scholarship Trust Fund Revenues and Expenses Fiscal Years 2006 Through 2009 (Dollars in Thousands)					
		2006 (audited)	**2007** (audited)	**2008** (audited)	**2009** (unaudited)
Net Assets, beginning of year		--	**$76,870**	**$80,807**	**$75,384**
Revenues	Transfer from Bond Fund	$36,000	--	--	--
	Transfer from Borrower Benefit Fund	13,850	--	--	--
	Transfer from College Assist	25,000	--	--	--
	Net Investment Income	2,151	4,317	(5,181)	(7,776)
	Total Revenues	**$77,001**	**$4,317**	**($5,181)**	**($7,776)**
Expenses	General & Administrative Expenses	$131	$380	$242	$120
	Scholarship Expenses	--	--	--	91
	Total Expenses	**$131**	**$380**	**$242**	**$211**
Net Assets, end of year[1]		**$76,870**	**$80,807**	**$75,384**	**$67,397**

Source: Office of the State Auditor's analysis of audited financial statements (for Fiscal Years 2006 through 2008) and revenues and expenses reported by CollegeInvest (for Fiscal Year 2009).

[1] Senate Bill 09-279 required CollegeInvest to transfer $15 million to the General Fund on July 1, 2009. Therefore, the Trust Fund will have about $52 million in net assets after this transfer.

We examined the Early Achievers Scholarship program and Trust Fund to determine whether the program is meeting the mission of increasing access to postsecondary education and is operating efficiently and effectively. As discussed in the next three sections, we found problems with CollegeInvest's management of the Trust Fund and disbursement of scholarship funds, as well as the design and administration of the scholarship program.

Disbursements for Scholarships

The Board's investment policy for the Early Achievers Scholarship Trust Fund prescribes a 5-percent-per-year disbursement objective. This is defined as meaning that the Trust Fund should make scholarship disbursements equaling 5 percent of the Trust Fund's previous year-end fair market value. The 5-percent annual disbursement objective is consistent with practices for foundations and endowments; for example, the Internal Revenue Service requires private foundations under Section 501(c)(3) to annually disburse 5 percent of the foundation's previous year-end fair market value. CollegeInvest staff reported that the intention of the 5-percent disbursement objective is to allow the Trust Fund to operate in perpetuity. CollegeInvest chose 5 percent as the disbursement

objective based on analysis from its investment advisor, which showed that this objective would allow the Trust Fund to continue indefinitely amid the highs and lows of the market. In other words, the 5-percent disbursement objective would allow CollegeInvest to spend 5 percent of the Trust Fund's net assets annually regardless of whether, in any given year, the Trust Fund earned more than 5 percent in investment income, earned less than 5 percent, or lost money because over time the fair market value of the Trust Fund will increase enough to support the 5-percent annual disbursement objective.

The value of the Trust Fund at the end of Fiscal Year 2008 was $75.4 million. Therefore, a 5-percent disbursement for Fiscal Year 2009, the first year Early Achievers Scholarships were given out, would be approximately $3.8 million. However, we found that CollegeInvest's scholarship disbursement for Fiscal Year 2009 was only $91,000 for 76 students. This amount represents a disbursement of 0.1 percent, well below the goal of 5 percent. Also, this disbursement amount falls below the anticipated annual disbursement of $2.5 million for 2,200 students outlined in Senate Bill 05-003's fiscal note.

CollegeInvest reported that it did not expect to initially make disbursements of 5 percent because it will take four years to "ramp up" to full funding for the program. Specifically, CollegeInvest anticipates that each cohort (i.e., high school class) will account for a disbursement of 1.25 percent each year, so it will take four years to reach full funding. CollegeInvest's financial model for the Trust Fund showed that it planned to disburse 1.25 percent the first year (Fiscal Year 2009), 2.5 percent the second year (Fiscal Year 2010), 3.75 percent the third year (Fiscal Year 2011), and 5 percent thereafter. In other words, CollegeInvest did not plan to disburse 5 percent until Fiscal Year 2012.

We analyzed Early Achievers Scholarship program data to determine if CollegeInvest will reach the Trust Fund's disbursement goals in the future. Specifically, as shown in the table below, we projected the program's future participation by examining (1) records for students registered for the scholarship as of July 2009, (2) response rates (in order to be considered for scholarship funding students must respond to CollegeInvest's "senior mailing" sent at the end of 12th grade), and (3) funding rates (not all students who respond to the senior mailing are eligible for scholarship funds—college financial aid offices verify students' eligibility and calculate the scholarship award amount). Although only 76 out of the 1,800 registered students from the class of 2008 (4 percent) received scholarship funding in Fiscal Year 2009, we conservatively projected that 10 percent of registered students from future cohort groups would receive funding. This higher projected funding rate takes into account the Board's recent changes to the way in which financial aid offices calculate the scholarship award amount, which may potentially increase the number of students who receive scholarship funds.

Early Achievers Scholarship Projected Participation (Assumes 10 percent of registered students receive scholarship funding)		
Cohort Group[1]	**Registered Students as of July 2009**[2]	***Actual*/Projected Scholarship Recipients**
Class of 2008	1,800	***76***
Class of 2009	2,400	240
Class of 2010	5,300	530
Class of 2011	5,500	550
Class of 2012	4,800	480

Source: Office of the State Auditor's analysis of Early Achievers Scholarship registration records.
[1] Year of high school graduation.
[2] Board policy requires students to register by June 1 of their 9th grade year. Therefore, the deadline to register for students in the class of 2012 was June 1, 2009.

Overall, we found that the earliest CollegeInvest would start disbursing 5 percent would be Fiscal Year 2013, or the fifth year of operation, as shown in the table below. Our projections also showed that CollegeInvest will not disburse funds according to its 1.25 percent per year ramp-up plan until Fiscal Year 2013. This means that if CollegeInvest continues to administer this program in its current form without a contingency plan for how to disburse money to meet disbursement goals, CollegeInvest will likely fall short of its disbursement targets for several more years. Additionally, our projections may be optimistic, as CollegeInvest staff lowered the maximum and minimum scholarship awards for the 2009-2010 academic year. The maximum award was lowered from $1,500 to $1,000, and the minimum award was lowered from $500 to $375.

Early Achievers Scholarship Projected Disbursements (Assumes all scholarship recipients receive $1,500 per year for four years) Fiscal Years 2009 Through 2013						
		2009	**2010**	**2011**	**2012**	**2013**
***Actual*/Projected Scholarship Recipients by Cohort Group**	2008	***76***	76	76	76	**--**
	2009	**--**	240	240	240	240
	2010	**--**	**--**	530	530	530
	2011	**--**	**--**	**--**	550	550
	2012	**--**	**--**	**--**	**--**	480
Total *Actual*/Projected Scholarship Recipients		***76***	**316**	**846**	**1,396**	**1,800**
***Actual*/Projected Scholarship Disbursement**		***$91,000***	$474,000	$1,269,000	$2,094,000	$2,700,000
***Actual*/Projected Trust Fund Value[1]**		***$75,384,000***	$52,000,000	$52,000,000	$52,000,000	$52,000,000
5% Disbursement		$3,769,200	$2,600,000	$2,600,000	$2,600,000	$2,600,000
1.25% Per Cohort Disbursement		$942,300	$1,300,000	$1,950,000	$2,600,000	$2,600,000

Source: Office of the State Auditor's analysis of Early Achievers Scholarship registration records, disbursements and Trust Fund revenues and expenses.

[1]Senate Bill 09-279 required CollegeInvest to transfer $15 million to the General Fund on July 1, 2009. Projected figures take the $15 million reduction into account and assume that the Trust Fund will not have investment income in excess of 5 percent. Thus, net assets are estimated to remain at $52 million.

Meeting the disbursement objective each year is important, given the purpose of the Trust Fund and demand for scholarship dollars. According to the Department, 48,000 Pell-grant-eligible, resident undergraduate students attended public institutions in the 2007-2008 academic year, but only 76 scholarships were awarded in Fiscal Year 2009. With so many Colorado students who could benefit from this scholarship assistance, a disbursement rate of 0.1 percent does not adequately fulfill the purpose of the scholarship program, which is meant to increase access to postsecondary education for low-income students.

We found that CollegeInvest does not have a strategy for ensuring that it meets its disbursement objective in years in which Early Achievers Scholarships do not reach 1.25 percent per cohort or 5 percent overall. To ensure that CollegeInvest can meet its disbursement objective annually, CollegeInvest should have a contingency plan for giving away remaining disbursement money as scholarships each year. For example, we spoke with one private foundation that used a contingency method to meet its disbursement objective while waiting for its flagship scholarship program to reach full funding. This foundation disbursed any remaining money short of its goal as block grants to colleges. Colleges submitted proposals for how they would distribute the funds in scholarships, and the

foundation awarded funds to colleges based on the strength of their proposals. Such a contingency plan may be a good model to allow CollegeInvest time to ramp up to full funding for the Early Achievers Scholarship program, while also achieving its annual disbursement objective.

CollegeInvest expressed concern about providing grants to colleges because of the possible conflict with federal regulations that prevent student loan lenders from inducing schools to steer loans towards the lenders by offering scholarships to the schools. To avoid any potential conflict with federal inducement regulations, CollegeInvest could grant money to the Department instead of to individual schools, and the Department could use the formula approved each year by the Colorado Commission on Higher Education for allocating state-funded student aid to the state's colleges and universities. The Department, and not CollegeInvest, would therefore allocate Early Achievers Scholarship funding to colleges and universities statewide. Monies for the Colorado Student Grant program, a state-funded program for students with demonstrated financial need, and other state-funded aid programs are disbursed through the Department in this way. Schools receive funds according to the allocation formula and disburse the funds to students according to the programs' rules. A Department representative reported that it would be feasible to allocate Early Achievers Scholarship money in this way. CollegeInvest could stipulate the rules by which schools are to award the scholarships. CollegeInvest could therefore tap into an existing program with an established infrastructure to ensure that it disburses Trust Fund monies as scholarships according to its disbursement objective each year.

Recommendation No. 1:

CollegeInvest should ensure that it complies with its disbursement objective for the Early Achievers Scholarship Trust Fund by developing a contingency plan for disbursing funds in years in which scholarships given to Early Achievers Scholarship program applicants do not reach this objective. Specifically, the contingency plan should include methods for disbursing the target amount of the Trust Fund's prior year-end fair market value annually, as outlined in the financial model approved by the CollegeInvest Board.

CollegeInvest Response:

Partially agree. Implementation date: March 2010.

CollegeInvest will develop contingency plans that seek to expend an amount equal to the full annual disbursement objectives when we also achieve our investment return objectives. The overall financial integrity

of the Trust Fund is also dependent on achieving certain average annual returns. To the extent cumulative returns are below planned returns, we do not believe it is prudent to disburse funds to students in excess of amounts committed to current applicants under the program. This could undermine future eligible students from receiving the scholarship funds.

We will continue to evaluate the program on an annual basis with the Board of Directors to maximize participation in the scholarship. As noted in the audit report, as part of this effort this past year significant changes were made to the program to simplify the award process and eligibility.

Program Design and Administration

As noted, the statutory mission of the Early Achievers Scholarship program is to increase access to postsecondary education for low-income students. Committee testimony for Senate Bill 05-003, which created the Early Achievers Scholarship program and Trust Fund, indicated that the program was envisioned to be modeled after successful “early commitment” programs such as those in Indiana and Oklahoma. Early commitment models target middle school and early high school students and offer a contract to students to provide financial aid in exchange for the students’ doing well in high school.

Statute does not require the Early Achievers Scholarship to be an early commitment model, and committee testimony indicated that the intent was to allow CollegeInvest and the Board discretion in designing a successful program and making changes to the program as needed. As discussed earlier, the statutory requirements for the scholarship program include Pell grant eligibility and a 2.5 high school grade point average.

CollegeInvest and the Board have designed the scholarship program to require students to register for the scholarship when they are in 7th, 8th, or 9th grade, which is similar to the early commitment programs in other states discussed at committee hearings for Senate Bill 05-003. However, we found that there are key differences between CollegeInvest’s model for the program and the successful early commitment models in other states. We examined the design and administration of the Early Achievers Scholarship program and found that it is not achieving the goal of increasing access to postsecondary education in an efficient and cost-effective manner, as described below.

The program lacks key elements of successful early commitment programs. CollegeInvest staff reported that requiring students to register for the Early Achievers Scholarship in 7th, 8th, or 9th grade allows CollegeInvest outreach staff to engage younger students and introduce them to the possibility of college. As

discussed above, this is similar to early commitment scholarship programs, such as those in Indiana and Oklahoma, which offer full tuition at state colleges and universities for students who sign a contract in middle school or early high school and successfully complete a pre-collegiate curriculum. However, key differences exist between the Early Achievers Scholarship program and the successful early commitment programs in Indiana and Oklahoma.

First, students must register for the Early Achievers Scholarship before they know whether they will qualify for scholarship funding. Statute requires students to be eligible for a federal Pell grant. However, students and their families do not know whether they will qualify for a Pell grant until they complete the Free Application for Federal Student Aid in 12th grade, which is three to five years after the student registered for the scholarship. In contrast, Indiana's and Oklahoma's programs determine the students' eligibility at the time they sign up based on free or reduced lunch status or on the parents' income. For example, in Oklahoma, the student's family income must not exceed $50,000 at the time of the commitment; as long as the family income does not exceed $100,000 at the time of college entrance, the student remains eligible. In Indiana, once the student is registered for the program, a change in the family's income does not affect the student's eligibility to participate.

Second, students who register for the Early Achievers Scholarship receive no guarantee of financial aid. As mentioned above, students register for the scholarship before they know whether they will qualify, so there is no guarantee that they will receive funding. Additionally, even for students who qualify for the scholarship, CollegeInvest can lower the award amount on an annual basis, as it has done for the 2009-2010 academic year. One high school counselor reported that three of her students had signed up for the Early Achievers Scholarship and felt "tricked" when they learned that they would not qualify for any funding. In contrast, Indiana's and Oklahoma's programs guarantee full tuition at state institutions to students.

Third, CollegeInvest initiates no contact with students between the time they register in 7th, 8th, or 9th grade and their senior year—a gap in contact of three to five years. In contrast, the early commitment program in Indiana provides support to students and their parents throughout high school. CollegeInvest does not provide the ongoing, hands-on guidance and outreach to students and their parents that a successful early commitment program demands. CollegeInvest reported that having more regular contact with students would increase the administrative burden of the program.

The success of early commitment programs is predicated on the idea that both the state and the student are agreeing to provide something; the state provides college money and support services in exchange for the student studying hard in high

school. The Early Achievers Scholarship program has no contract, no guarantee of funding, and limited infrastructure to provide ongoing support for students and their families.

The program's registration rules are cumbersome. Board policy specifies the grades in which students can register (7th, 8th, or 9th grade) and the registration deadline (June 1 at the end of the 9th grade year). We analyzed records for all 20,000 registered students as of April 2009 and found that 8,000 students (40 percent) did not register in compliance with Board-approved policy. Specifically, 4,000 students registered after the deadline, and 4,000 students indicated grade levels that did not correspond to the stated year of graduation. For example, one student registered in March 2009 and indicated that he was in 9th grade. However, he also indicated that his graduation year was 2010, which suggests that he was actually in 11th grade and had missed the registration deadline of June 1, 2007. We also found that 49 of the 76 students who received scholarship funding in the 2008-2009 academic year (64 percent) had registered after the June 1 deadline. CollegeInvest reported that it exercises leniency with the deadline. This is concerning because the deadline should not be extended for some students when other students may not have submitted an application because they knew that it would be late. This leniency creates unequal access to the scholarship. Additionally, CollegeInvest reports that verifying whether the student's grade level and graduation year correspond would be too much of an administrative burden.

The program lacks controls to ensure that scholarship recipients meet requirements. As noted, statute requires that Early Achievers Scholarship recipients maintain a 2.5 grade point average in high school. However, CollegeInvest does not verify students' compliance with the grade requirement. When students respond to the senior mailing, they "self-certify" that they *anticipate* having a 2.5 grade point average, but they are not required to submit a transcript. The student's high school grades are also not verified by the college financial aid offices when verifying eligibility for the Early Achievers Scholarship.

The program is burdensome for higher education institutions. We found that much of the responsibility for administering the program falls on colleges' financial aid offices. As a result, financial aid counselors reported that the program is burdensome for them to administer. For example, counselors have to identify potentially eligible students by manually matching CollegeInvest's web portal database with the college's database. Then, counselors have to determine the students' eligibility for the program (e.g., Pell grant eligibility), calculate the award amount, and send an invoice to CollegeInvest. The counselors said that very few students self-selected (i.e., came to their offices to request the scholarship); instead, the students who received scholarships did so largely

because of the efforts of counselors who identified them through a data match with CollegeInvest's web portal. One counselor found the process so burdensome that she does not plan to search for students in the future; she will process only scholarships for students who specifically request it. As additional cohorts are added to the list of eligible students, the scholarship may become unmanageable for financial aid offices to administer, which could mean that eligible students will not receive funding. This raises the question of whether it is sustainable to depend so much on higher education institutions to administer the program.

The program has high administrative costs relative to scholarships disbursed. The administrative costs for the Early Achievers Scholarship program are high relative to the amount disbursed in scholarships. Since the inception of the Trust Fund in Fiscal Year 2006, CollegeInvest has spent almost $10 in administrative costs for every $1 that has been disbursed in scholarships. Specifically, the Trust Fund has spent $873,000 on administrative expenses while disbursing only $91,000 in scholarship funds. Additionally, administrative costs for Fiscal Year 2009 exceeded the amount of scholarship disbursements ($120,000 and $91,000, respectively). Presumably, the ratio of administrative costs incurred to scholarships awarded will decrease significantly as more cohorts enter the program and more scholarships are awarded, thus making the program potentially more cost-effective.

We also found that there are hidden costs for this program. First, as discussed above, higher education institutions must take on significant responsibilities for administering the program. The time counselors spend identifying students and determining their eligibility, for example, is not compensated by CollegeInvest. If these costs were taken into consideration, the cost of administering the Early Achievers Scholarship program would be higher than is reflected in the Trust Fund. Additionally, as will be discussed in Chapter 3, CollegeInvest does not charge indirect costs to the Trust Fund.

Improving the Program

CollegeInvest needs to make significant improvements to the Early Achievers Scholarship program to ensure that the program is meeting the goal of increasing access to postsecondary education in the most efficient and cost-effective way. The current program lacks crucial elements of the early commitment model it is patterned after. The program is also burdensome to administer and its reliance on higher education institutions to manage the program may not be sustainable. Although the Board recently made improvements to the way financial aid counselors calculate the scholarship award amount, CollegeInvest has no plan to systematically reevaluate the program. To make the program more like the early commitment model, CollegeInvest could fix some of the key problems we identified. Such improvements may include following up with students on a

regular basis, simplifying registration rules, implementing stronger controls over program eligibility determination, and relying less on higher education institutions to administer the program. However, these improvements would likely require higher administrative costs. For example, determining eligibility and providing more support services to registrants would require more CollegeInvest staff expertise and time. Therefore, CollegeInvest, in conjunction with the Board, should consider alternative ways to restructure the scholarship program. Options, some of which may require statutory change, for CollegeInvest and the Board to consider include the following:

- **Eliminate early registration and fund colleges directly.** Under this model, CollegeInvest could provide grants to colleges to identify and select students based on statutory eligibility criteria (i.e., 2.5 high school grade point average and Pell grant eligibility). Financial aid counselors reported that this model would be easier to administer than the current Early Achievers model. Eliminating early registration would also greatly reduce administrative costs. However, as discussed in the previous section, there may be concerns about federal inducement regulations. Before pursing this option, CollegeInvest would need to consult with the U.S. Department of Education.

- **Eliminate early registration and disburse funds using the Department's allocation formula.** As previously discussed, CollegeInvest could consider working with the Department to disburse scholarship funds in the same way that the Colorado Student Grant program and other state-funded aid is disbursed. In addition to the cost savings of eliminating early registration, CollegeInvest would achieve additional cost savings and efficiencies by tapping into an existing statewide infrastructure to administer the program. As with the previous suggestion, CollegeInvest could specify that students meet the statutory requirements of the scholarship, and no change to statute would be necessary.

- **Structure the program more closely after successful early commitment programs such as those in Indiana and Oklahoma.** If CollegeInvest determines that it would like to keep an early commitment model for the Early Achievers Scholarship program, CollegeInvest should consider modeling the program more closely after successful programs such as those in Indiana and Oklahoma, in which eligibility is determined when students sign up and a guarantee of funding is made to students. Depending on the type of changes sought, CollegeInvest may need to consult with the General Assembly about amending the requirement that students be Pell eligible. This option would also likely result in significantly higher administrative costs compared to the previous two

models. CollegeInvest and the Board should also factor these increased costs into their considerations.

CollegeInvest reported that it believes it is too early to gauge the scholarship program's performance and make changes because the program is still new. While we believe that the first year of funding was low enough to warrant significant concern about the design and administration of the program (only $91,000 was disbursed for 76 students in Fiscal Year 2009), we agree that having one more year to evaluate the performance of the program may be beneficial. For example, as noted above, the Board recently made changes to the way in which scholarship award amounts are calculated, which may increase the number of scholarship recipients. Therefore, at the conclusion of the 2009-2010 academic year, CollegeInvest should formally assess the scholarship program, including analyzing whether requiring students to register in 7th, 8th, or 9th grade is the best way to achieve the program's mission of increasing access to postsecondary education. CollegeInvest should provide a report to the Board with its findings and recommendations for improvement. Additionally, statute requires that the Board provide a report to the General Assembly by February 1 each year showing, at a minimum, scholarship participation, the average scholarship award, the amount spent on administration, and Trust Fund performance. The Board should provide CollegeInvest's assessment and recommendations to the General Assembly along with this annual report that will be due in February 2011.

Recommendation No. 2:

CollegeInvest should work with the CollegeInvest Board to ensure that the Early Achievers Scholarship program is meeting its goal of increasing access to postsecondary education for low-income students in the most cost-effective and efficient way by:

a. Analyzing alternative ways of administering the program and disbursing funds. This should include an assessment at the end of the 2009-2010 academic year of whether or not to continue the early commitment approach and, if so, how to improve the program.

b. Providing a report to the CollegeInvest Board that documents the assessment and makes recommendations on the best option for achieving program goals. The Board should provide a copy of CollegeInvest's assessment and recommendations with the annual report due to the General Assembly in February 2011.

The CollegeInvest Board should adopt guidelines as necessary to implement any changes in the program. If statutory revision is necessary, CollegeInvest and the CollegeInvest Board should seek legislative change.

CollegeInvest and CollegeInvest Board Response:

Agree. Implementation date: February 2011.

CollegeInvest and the Board agree that the goal is to maximize the number of low-income students entering postsecondary education. CollegeInvest is committed to continually analyzing the administration of the Trust Fund in an effort to increase access for low-income students to the greatest extent possible. This is the first year scholarships have been disbursed, and as noted significant changes were made to the administration of the program. CollegeInvest will prepare an assessment of the program and related recommendations at the end of the 2009-2010 academic year to the Board. This assessment will be provided to the General Assembly as part of the 2011 annual report.

Trust Fund Management

Statute [Sections 23-3.1-206.9(2) and 23-3.1.206.9(3), C.R.S.] gives CollegeInvest and its Board the authority to administer the Trust Fund and its assets. Prior to June 2007 the Board had no formal investment policy for the Trust Fund. In June 2007 the Board adopted an investment policy to manage the Trust Fund's assets. This policy states that the Board will administer the Trust Fund in accordance with the Colorado Uniform Prudent Investor Act [Section 15-1.1-101, et seq., C.R.S.]. Under this act, a trustee's (i.e., the Board's) requirements for meeting the "prudent investor rule" shall include:

- exercising care, skill, and caution in investing trust assets; considering relevant information (e.g., general economic conditions and expected total return from income and appreciation of capital) when making investment decisions;
- diversifying the trust's assets;
- investing and managing the trust assets solely in the interest of the beneficiaries (i.e., the scholarship recipients); and
- incurring only reasonable and appropriate costs in managing and investing the trust's assets.

We contracted with Buck Consultants to evaluate the Board's administration and management of the Trust Fund. Our contractor's review included the Trust Fund's performance from July 2005 through March 2009; the Board's investment objectives, policies, and practices; the Trust Fund's asset mix; and the Board's oversight activities over the Trust Fund.

Fund Performance

Overall, our contractor found that the Trust Fund's returns from July 2005 through March 2009 averaged -4.8 percent annually, which was below its peers (-1.3 percent for the median endowment over the same period) and benchmarks identified by the contractor (-2.7 percent for the Endowment Index over the same period). The primary reason for the Trust Fund's below-average performance appears to be the Board's decision to invest all of the Trust Fund's assets in commercial paper, a type of corporate debt, from July 2005 through June 2007. Commercial paper is generally considered a relatively safe investment that typically does not generate returns as large as equity investments. Starting in June 2007, the Board's investment policy outlined an asset mix of 60 percent equities and 40 percent fixed income investments, as will be discussed further.

Board Oversight

Our contractor also found that the Board does not always sufficiently document the rationale behind investment decisions related to the Trust Fund that deviate from the Board's stated investment policy. Specifically, the Board voted in February 2008 to allow CollegeInvest to use all but $10 million of Trust Fund monies to purchase loans from CollegeInvest's student loan portfolio. The Trust Fund purchased $25 million in CollegeInvest student loans in March 2008 and $17 million more in December 2008. Based on our review of Board meeting minutes from February 2008 (recordings of the Board meetings were not available), and subsequent to the Board's decision, CollegeInvest's "Management Discussion and Analysis" from the audited Fiscal Year 2008 financial statements, and comments from CollegeInvest management's discussions with us and before the Joint Budget Committee, it appeared that the primary purpose of the student loan purchase was to bolster CollegeInvest's student loan operations by providing liquidity for originating loans, rather than to maximize the Trust Fund's investment returns. If this were the primary purpose of the student loan investment, it would be a concern because it would suggest that the Board made an investment decision that was not solely for the benefit of the Trust Fund's beneficiaries, as required by its own investment policy and the prudent investor rule.

Board members reported that the February 2008 meeting included a vigorous discussion of ways of moving Trust Fund assets into more conservative

investments because of the market performance at that time. However, this discussion is not reflected in the February 2008 meeting minutes. In addition, the Board could not provide other documentation or analysis showing that the Board discussed and concluded that investing in CollegeInvest's student loans was the best choice for protecting the Trust Fund's assets. As a result, we cannot conclude whether the decision to invest in student loans with Trust Fund monies was appropriate, in terms of being made solely to benefit the Trust Fund.

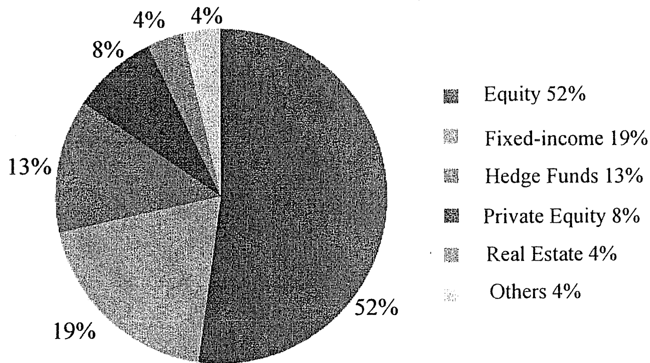
The lack of documentation showing the Board discussed and concluded that investing in CollegeInvest's student loans was in the best interest of the Trust Fund is a concern for two reasons. First, this transaction represented a conflict of interest for the Board. Specifically, because the Board has an inherent conflict with oversight responsibilities over both the Trust Fund and CollegeInvest's student loan funds, when making decisions that affect the Trust Fund the Board has a responsibility to demonstrate that the transaction is for the benefit of the Trust Fund. In addition, because the Board was essentially both the buyer and the seller in this transaction, it should have clearly documented the basis for the price paid by the Trust Fund for this investment and related market value. Our contractor found that the Board paid book value for the student loans purchased, which may or may not have reflected the loans' current fair market value. Although the Board's decision appeared to improve the Trust Fund's short-term returns (the Trust Fund experienced fewer losses from March 2008 to March 2009 relative to peers), under different circumstances the Trust Fund could have experienced losses.

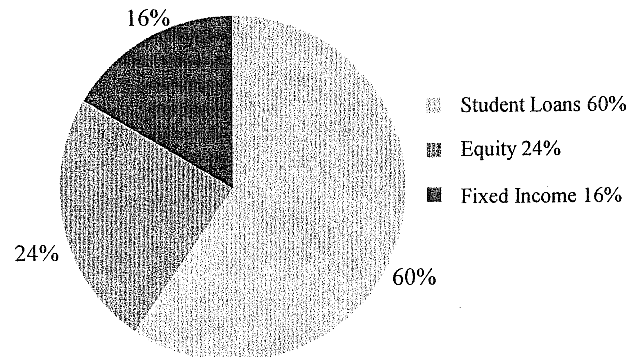
The conflict of interest inherent to this transaction is also a concern because we found no evidence that the Board attempted to mitigate this conflict. Specifically, the Board confirmed that it did not seek or rely on independent advice when voting to invest in CollegeInvest's student loans with Trust Fund monies. For example, we found no evidence that the Board consulted with the Trust Fund's administrator, who recommended the 60/40 asset mix, or another advisor to determine if investing such a large percentage of the Trust Fund in student loans was a prudent move. Without an independent review, there is a lack of assurance that the student loan purchase was in the best interest of the beneficiaries of the Trust Fund, as required by statute.

Second, the lack of documentation showing the Board discussed and concluded that investing in CollegeInvest's student loans was in the best interest of the Trust Fund is a concern because the Board's decision to invest Trust Fund monies in CollegeInvest's student loans resulted in a deviation from the Board's investment policy, which required an asset mix of 60 percent equities and 40 percent fixed income investments. For example, after the initial $25 million student loan purchase in March 2008 and $17 million purchase in December 2008, our contractor found that the percentage of the Trust Fund's assets held in student

loans (which can be considered a fixed income investment) had risen to more than 75 percent by the end of 2008. This percentage decreased to about 60 percent in January 2009 when the $17 million was repaid to the Trust Fund. Although student loans may be a sensible part of an overall investment strategy, our contractor compared the Trust Fund's asset mix as of January 2009 to the typical asset allocation for endowments and found that the typical endowment or foundation does not invest in student loans. Further, if student loans are considered to be a fixed-income investment, then the Trust Fund's assets were weighted much more heavily toward fixed income investments than is the case for the typical endowment or foundation (as shown in the charts below) or than is permitted under Board policy.

Comparison of Early Achievers Scholarship Trust Fund Asset Allocation to Typical Asset Allocation for Endowments and Foundations





Source: Buck Consultants' analysis of January 2009 data from CollegeInvest (for the Early Achievers Scholarship Trust Fund) and 2008 data from Greenwich Associates (for typical endowments/foundations).

We understand there may be legitimate reasons why the Board would deviate from its own investment policy. For instance, Board members reported that deteriorating market conditions made it necessary for the Board to forego the asset mix outlined in its investment policy to ensure that it protected the Trust Fund's assets. However, the reasons behind significant departures from the Board's investment policy should be adequately documented to provide transparency to the Board's actions and to ensure that the Board is acting solely

for the benefit of the Trust Fund's beneficiaries. Such documentation would include the rationale for the departure and analysis showing that the departure is in the sole interest of the Trust Fund's beneficiaries. As mentioned earlier, in cases where the Board could be perceived to have a conflict of interest, it should seek advice from an independent advisor.

The Board should also consider revising its investment policy to clarify that no Trust Fund monies will be invested in any of CollegeInvest's student loans or other operations. Although the Board's investment policy specifically states that the Board will invest Trust Fund monies solely for the benefit of its beneficiaries, the policy does not prohibit related-party transactions, such as the student loan investment. Such a revision will allow the Board and CollegeInvest to avoid future conflict-of-interest situations, while not compromising the Board's ability to invest in a wide range of investment options.

Recommendation No. 3:

The CollegeInvest Board should ensure that it demonstrates its fiduciary oversight of the Early Achievers Scholarship Trust Fund by:

a. Documenting the reasons behind deviations from its investment policy.

b. Seeking independent advice when making any investment decisions that would result in deviations from its investment policy or when considering investment decisions involving related parties.

c. Considering revising its investment policy to prohibit investment of Trust Fund monies in any of CollegeInvest's other operations, including CollegeInvest's student loan portfolio.

CollegeInvest Board Response:

Agree. Implementation date: December 2009.

The Board will document in the minutes the substance of the reasons behind deviations from its investment policy, however full documentation of all considerations and discussion is often difficult and beyond the purpose of the minutes. The Board must act in a prudent and fiduciary manner, and will make its best efforts to engage an independent advisor when it makes decisions that would result in a significant deviation from its investment policy or result in an investment in a related party if doing so can be done in a timely and economic manner. However, it does

not change the Board's obligation to act in a manner it solely determines to be appropriate. Finally, the Board will consider revising the investment policy statement to prohibit investments in other CollegeInvest operations.

Service Scholarship and Opportunity Scholarship

The Service Scholarship and Opportunity Scholarship are sweepstakes scholarship programs offered to full-time Colorado undergraduate students. Both scholarships are funded from College Savings Plan provider fees and, until Fiscal Year 2009, from student loan profits. Students register for one or both of the scholarships online at the CollegeInvest website and are selected in a random drawing. The Service Scholarship provides $6,000 over two years to students who complete a total of 80 hours of community service (students receive $3,000 after providing proof of completing 40 hours of service in each of the two years of the scholarship program). The Opportunity Scholarship provides a one-time payment of $1,000 with no community service requirement. Each year CollegeInvest budgets the number of scholarships that will be available to students; in Fiscal Year 2009 there were 27 Service Scholarships and 38 Opportunity Scholarships available.

As mentioned, CollegeInvest chooses finalists for the scholarships in a random drawing. Finalists then must demonstrate financial need with an Expected Family Contribution (EFC) of $15,000 or less, as reported on the student's federal financial aid application. Although the EFC limit is disclosed as a requirement in the rules and on CollegeInvest's website, students can register without knowing their EFC. If an ineligible finalist is chosen, the scholarship is not given out. Until Fiscal Year 2009, CollegeInvest held a secondary drawing for the Service Scholarship and Opportunity Scholarship to give out remaining scholarships. However, CollegeInvest staff reported that this method did not result in many more winners, so CollegeInvest discontinued the secondary drawing in 2009.

We reviewed scholarship awards from Fiscal Year 2005 through Fiscal Year 2009 and identified two concerns with these programs. First, although CollegeInvest reported that it awarded all of the scholarships, we found that CollegeInvest has consistently failed to give out the number of scholarships that were budgeted and advertised. As shown in the table below, between Fiscal Years 2005 and 2009, CollegeInvest only funded 330 out of 565 available scholarships (58 percent) and therefore failed to fund a total of $860,000 out of $1.8 million available. This occurred despite a high level of interest from students—each year an average of 5,000 students registered for the Service Scholarship and an average of 8,500 students registered for the Opportunity Scholarship. Second, the percentage of scholarships funded versus available has been decreasing. Between Fiscal Years 2005 and 2009 the percentage of available scholarships given out dropped from

76 percent to 40 percent. CollegeInvest funded less than half of the scholarships available in Fiscal Years 2008 and 2009 (33 percent and 40 percent, respectively). Despite the fact that CollegeInvest significantly reduced the number of and funds available for scholarships in Fiscal Year 2009, the percentage of unused scholarships and funds remains high.

Service Scholarships and Opportunity Scholarships[1]
Fiscal Years 2005 Through 2009

	2005	**2006**	**2007**	**2008**	**2009**	**Total 2005-2009**
Available Scholarships	125	125	125	125	65	**565**
Funded Scholarships	95	94	74	41	26	**330**
% Funded	76%	75%	59%	33%	40%	**58%**
Total Dollars Available	$400,000	$400,000	$400,000	$400,000	$200,000	**$1,800,000**
Total Dollars Funded	$285,000	$284,000	$179,000	$111,000	$81,000	**$940,000**
% Funded	71%	71%	45%	28%	41%	**52%**
Total Dollars Unused	**$115,000**	**$116,000**	**$221,000**	**$289,000**	**$119,000**	**$860,000**

Source: Office of the State Auditor's analysis of official program rules and data provided by CollegeInvest.
[1] Figures represent Service Scholarships and Opportunity Scholarships combined.

CollegeInvest advertises the number of available Service Scholarships and Opportunity Scholarships on the CollegeInvest website and in the official program rules that are available on its website. Since CollegeInvest does not give out the advertised number of scholarships, we have concerns that the programs' advertising has been misleading because the estimated odds appeared to have been stated inaccurately. CollegeInvest states the estimated odds of winning in its official rules. The estimated odds of winning are listed as the number of available scholarships out of the estimated number of applicants. For example, the Fiscal Year 2009 official rules stated that the estimated odds of winning were 38 in 10,000 for the Opportunity Scholarship and 27 in 6,000 for the Service Scholarship. However, CollegeInvest gave out only 15 Opportunity Scholarships and 11 Service Scholarships. Since CollegeInvest has not funded all of the available scholarships, the estimated odds of winning posted in the rules appear overstated.

CollegeInvest's method for identifying Service Scholarship and Opportunity Scholarship winners is the main reason not all scholarships are funded. Specifically, as mentioned above, finalists demonstrate their financial need after

the random drawing. As a result, finalists are chosen from *all* registrants, rather than from only *eligible* registrants. Therefore, students who are chosen in the random drawing may not be eligible for the scholarship. Additionally, as discussed above, CollegeInvest does not have an effective method for giving out remaining scholarships.

CollegeInvest needs to ensure that it funds all available Service Scholarships and Opportunity Scholarships. As noted, thousands of students register each year for the scholarships, so demand clearly exists. CollegeInvest has options for improving the programs to ensure that it funds all of the scholarships. Specifically, CollegeInvest could consider eliminating the financial need requirement for the scholarships, which would make it more likely that finalists chosen in the random drawing would be eligible. Additionally, CollegeInvest should implement an effective mechanism for giving away remaining scholarships. For example, CollegeInvest could draw names for an alternate finalist list, inform these students of their alternate status, ask them to demonstrate their eligibility, and then select names from the alternate list until all scholarships have been awarded.

Recommendation No. 4:

CollegeInvest should develop methods to ensure that it always gives out the number of advertised Service Scholarships and Opportunity Scholarships and uses amounts allocated annually for the scholarships.

CollegeInvest Response:

Agree. Implementation date: January 2010.

We will evaluate additional opportunities to award the scholarships and make a recommendation to the Board. Efforts to date have not been as effective as we had hoped, but it continues to be our goal to award all of the scholarship funds.

Loan Forgiveness Programs

Loan forgiveness programs are another way that CollegeInvest helps increase students' access to higher education. Specifically, these programs make college more affordable by forgiving a portion of the student's loan balance and thereby

reducing the associated interest. CollegeInvest has administered six loan forgiveness programs since Fiscal Year 2002, which we describe below.

- **Loan Forgiveness Program for Teachers (LIFT Teachers).** Senate Bill 01-098 created this program to recruit and retain Colorado teachers in science, math, special education, and English as a Second Language. Senate Bill 05-191 expanded program eligibility to all teachers at high-poverty rural public schools. Teachers are eligible to receive a maximum of $2,000 per year in loan forgiveness for four consecutive years. CollegeInvest has been the primary source of funding for this program. In December 2004, the Board designated $4 million in funding from the Borrower Benefit Fund for this program. In Calendar Year 2008, 248 teachers received a total of about $426,000 in loan forgiveness payments through LIFT Teachers.

- **Loan Forgiveness Program for Nursing Teachers (LIFT Nursing).** Senate Bill 06-136 created the LIFT Nursing program to address the nursing shortage in Colorado by encouraging nursing students and professionals to enter the teaching field. Nursing teachers agree to teach at qualified nursing schools for five years in exchange for loan forgiveness up to $20,000 over that same time period. The General Assembly appropriated a total of about $485,000 in state general funds over Fiscal Years 2007, 2008 and 2009 for LIFT Nursing, the main source of the program's funding. In Fiscal Year 2009, 10 teachers received a total of $40,000 in loan forgiveness payments through LIFT Nursing. These 10 teachers are eligible to receive up to $200,000 collectively ($20,000 per teacher) in loan forgiveness payments from the program.

- **Mile High Graduate Rebate Award for Denver Students (GRADS) and El Paso County Graduation Reward Program (GRP).** The GRADS and GRP programs encourage Denver and El Paso County high school students to attend college by offering them loan forgiveness awards based on the type of postsecondary degree the students earn. Participants can receive up to $1,500 in loan forgiveness payments for a bachelor's degree, $750 for an associate's degree, or $300 for a vocational degree. CollegeInvest funds the program through the net earnings from student loans originated with $52 million of Private Activity Bond allocations that Denver and El Paso Counties gave to CollegeInvest in 2005 in exchange for setting up these programs. During Fiscal Year 2009 no students received loan forgiveness payments through GRADS, but three students received a total of $3,000 in loan forgiveness payments through GRP.

- **State Health Care Provider Loan Repayment Program.** Senate Bill 07-232 created this program to attract health care professionals to practice

medicine in underserved areas of Colorado. The program awards individual health care providers up to $25,000 per year for a two-year contract to work in an underserved area. The program received funding of $388,000 from CollegeInvest, general fund appropriations, and a federal match. In Calendar Year 2008, six medical professionals were awarded approximately $185,000 in loan forgiveness payments to be paid over two years through this program. House Bill 09-1111 transferred administration of the program from CollegeInvest to the Department of Public Health and Environment as of July 1, 2009.

- **Colorado School Counselor Corps.** Fully funded by a federal grant, this program is intended to attract and retain licensed school counselors in low-income schools in Colorado. Participants can receive up to $2,000 per year for up to two consecutive academic years of employment. Currently the program is taking applications for its first-year participants and has not yet awarded any money.

We reviewed CollegeInvest's administration of its loan forgiveness programs and found problems with payments, barriers to participation, and outreach efforts, as we discuss in the next two sections.

LIFT Teachers

CollegeInvest has administered and funded LIFT Teachers since the program began in Fiscal Year 2002. As stated, the goal of LIFT Teachers is to attract and retain qualified teachers in high-demand disciplines, such as math or science, or in poor, rural schools. We reviewed the overall administration, participation rates, and success of the program and identified concerns with CollegeInvest's payment methods and the continued funding and operation of the program, as described below.

Award payments. CollegeInvest makes monthly loan forgiveness payments to LIFT Teachers participants. We found that monthly payments do not maximize the benefit of the program for participants. The monthly loan forgiveness payments cover all or part of the participant's required monthly student loan payment. The loan forgiveness payment therefore goes toward both the loan principal and the interest on a monthly basis, rather than being applied annually to just the loan principal. Paying down both the principal and the interest does not benefit the borrower as much as paying down the principal alone. For example, we calculated a loan amortization simulation on a typical CollegeInvest student loan of $15,000, with an interest rate of 6.8 percent and fixed payments, over a 10-year period. Our simulation showed that a LIFT Teachers participant would save about $3,700 in interest over the life of the loan if the loan forgiveness

payments were applied annually toward the principal (and the participant continued to pay his or her regularly scheduled student loan payment) instead of monthly toward both the principal and the interest. The simulation also showed that annual payments on the principal only would allow the borrower to pay off the loan more than five years earlier.

CollegeInvest staff reported that it adopted the monthly payment method for LIFT Teachers because it helped participants' monthly cash flow by essentially making their loan payments for them. Although some participants may see this as a benefit, others may recognize that having loan forgiveness payments go toward loan principal alone represents a better long-term benefit. Therefore, CollegeInvest should allow each existing LIFT Teachers participant to choose which payment structure (i.e., annual versus monthly payments) works best for his or her situation and adopt the annual loan repayment process going forward. All new LIFT Teachers participants should receive a single, annual payment that applies to principal only.

We also found that CollegeInvest is making overpayments to LIFT Teachers recipients. Section 23-3.9-102(3), C.R.S., sets a yearly maximum award amount of $2,000 per year per participant. We reviewed payments for Calendar Year 2009 and found that CollegeInvest awarded 107 participants $2,004 each for a total of $428 in overpayments. The overpayments occurred because CollegeInvest's monthly payments to the participants were not calculated so that they would add up to exactly $2,000 by the end of the year. Although we did not review payments made before Calendar Year 2009, CollegeInvest staff acknowledged that this type of overpayment has been occurring for all cohorts since payments began in Fiscal Year 2002. CollegeInvest should ensure that annual loan forgiveness payments no longer total more than $2,000 per participant.

Continued program funding and operation. We found that CollegeInvest has closed LIFT Teachers to new applicants even though House Bill 08-1255 extended the application window from the 2008-2009 academic year to the 2012-2013 academic year. Staff stated that they closed the program because House Bill 08-1255 did not provide additional funding. However, we found that CollegeInvest could continue to fund the program out of the Board's initial $4 million funding commitment to the program. Specifically, CollegeInvest has projected that LIFT Teachers spending will reach $3.3 million in total for its 468 participants once the current participants have received their loan forgiveness payments, leaving about $700,000 to fund additional cohorts. Given the critical nature of the program's mission to encourage individuals to teach in key disciplines, such as math and science, and in rural schools, it is important that CollegeInvest fulfill the Board's $4 million commitment to fund LIFT Teachers by reopening enrollment into the program. We estimate that CollegeInvest could

serve approximately 88 additional teachers with the originally committed funds. CollegeInvest would need to do its own analysis to determine how many additional teachers could be served before the remainder of the Board's $4 million commitment is used up.

Recommendation No. 5:

CollegeInvest should ensure that the Loan Forgiveness Program for Teachers meets its goals of recruiting and retaining teachers in high-demand disciplines, such as math and science, and in poor, rural schools by:

a. Allowing existing LIFT Teachers participants the option of receiving their loan forgiveness payments for the year as a lump-sum annual payment that will be applied only to loan principal or as a monthly payment that covers both principal and interest.

b. Changing the repayment process so that all new LIFT Teachers participants receive their loan forgiveness payments as a lump-sum annual payment applied to loan principal only.

c. Reopening LIFT Teachers enrollment until the remainder of the CollegeInvest Board's initial $4 million commitment to LIFT is exhausted.

d. Ensuring that LIFT Teachers participants do not receive payments exceeding the $2,000 statutory cap annually.

CollegeInvest Response:

Partially agree. Implementation date: March 2010.

The final cohort of teachers entered the LIFT Teachers program this past year. As a result, we agree that there is approximately $700,000 remaining for loan forgiveness. CollegeInvest and the Board will work to determine how to best utilize those resources. Given the dramatic changes to the student loan business, both the changes in federally legislated yields and in the credit markets, careful evaluation of the use of these dollars and how best to meet our overall mission will need to be addressed by the Board. In addition, as noted in the report, the loan forgiveness program has not achieved its goals. Before directing these funds to additional loan forgiveness programs, meaningful and achievable goals and measurements need to be developed.

While we agree that offering a lump-sum reduction of the LIFT Teachers participant's principal balance would save the borrower more money over the long-term, in extensive discussions during the design of the program teachers indicated that their primary concern was not the amount of debt but the ability to make monthly payments on a teacher's salary. This design best meets the needs of the participants. However we will communicate with our current participants and offer to allow them to switch to an annual lump sum payment for the balance of the program. Depending on the response to this option management will make a recommendation to the Board regarding the future structure of loan forgiveness programs.

CollegeInvest will adjust the monthly loan forgiveness amount such that the total annual amount forgiven does not exceed $2,000.

Loan Forgiveness Program Participation

Each of CollegeInvest's loan forgiveness programs has an important public policy mission. For example, the GRADS and GRP programs are designed to encourage high school students to complete their college education, while the LIFT Nursing program promotes the nursing teacher profession at a time when Colorado faces a shortage of qualified nurses. Therefore, it is important that CollegeInvest maximize participation in these programs to meet the programs' public policy goals.

Along with the two LIFT programs, we analyzed the effectiveness of and participation in CollegeInvest's other loan forgiveness programs. We found that the overall participation numbers for these programs appear low. For example, of approximately 45,000 high school graduates in Denver and El Paso Counties eligible for the GRADS and GRP programs, only about 460 (1 percent) have applied to the programs, and only three students (all in GRP) have received loan forgiveness payments, which totaled $3,000. In addition, LIFT Nursing received only one new applicant for Fiscal Year 2009 and has only served 11 participants since the program began in Fiscal Year 2007. Finally, CollegeInvest staff have frequently revised downward the projected use of LIFT Teaching funds.

We identified ways in which CollegeInvest could improve the effectiveness of and participation in its loan forgiveness programs in five areas: outreach, eligibility, funding, performance metrics, and payments. For each of these areas, CollegeInvest should establish general policies and procedures, as described below, to ensure that all of its loan forgiveness programs, both current and future, are more effective in fulfilling their critical public policy missions.

Outreach. It is important that CollegeInvest reach as many potential candidates as possible to maximize participation in its loan forgiveness programs. We examined outreach efforts in each program and found that CollegeInvest does not effectively target potential candidates for its programs. For example, CollegeInvest focused its outreach efforts for LIFT Teachers and LIFT Nursing on providing program information to college and school district administrators, but it did not attempt to directly contact teachers or teaching students. CollegeInvest staff created a template email about LIFT Nursing for nursing teachers and students in Colorado and sent it to school administrators, but did not follow up to determine if the email was passed along to the teachers and students.

For the GRADS and GRP programs, CollegeInvest sent outreach materials to students eligible for the program. However, this outreach occurred when the students were in high school, meaning that the students would not necessarily have known yet if they (a) would need to take out a student loan or (b) would meet the programs' other eligibility criteria, such as graduating from an El Paso County college (for GRP). If students do not know whether they will qualify for a program, they may be less likely to sign up for it. It would be more effective and efficient for CollegeInvest to contact students once they are in college and have taken out student loans. CollegeInvest reported that it created a communication campaign in 2007 for its current loan holders who had signed up for GRADS and GRP. We reviewed the mailing and found that it only talked in general terms about loan forgiveness programs and did not specifically mention that the student had signed up previously for GRADS or GRP and would be eligible for up to $1,500 in loan forgiveness payments once he or she graduated from college. CollegeInvest also reported that it contacted about 200 students in its loan database who had previously signed up for GRADS or GRP, but these students did not respond.

CollegeInvest should focus more of its outreach on directly contacting potential candidates for its loan forgiveness programs. For example, CollegeInvest could contact all loan holders in its database with addresses from Denver or El Paso County, who would potentially qualify for the GRADS and GRP programs. CollegeInvest should also explore other ways to obtain lists of potential candidates for its loan forgiveness programs. For example, we obtained a list of approximately 230 college nursing teachers from the Department of Regulatory Agencies. We have provided this list to CollegeInvest for follow up.

Eligibility Requirements. It is important that eligibility requirements be as inclusive as possible to maximize participation in loan forgiveness programs. We reviewed the eligibility requirements for CollegeInvest's programs and found that most of the programs require that applicants hold a CollegeInvest loan to participate. We found this requirement to be a barrier to participation. For example, we reviewed a sample of 40 denied LIFT Teachers applicants and found

that 15 (38 percent) were automatically disqualified because they did not hold a CollegeInvest loan. Additionally, 63 percent of GRADS and 38 percent of GRP applicants currently do not qualify for these programs for the same reason.

CollegeInvest stated that when it funds a loan forgiveness program, it requires that participants own a CollegeInvest loan. The rationale is that proceeds from the loans will be used to pay for the loan forgiveness payments, thereby making the program self-sustaining, and that limiting the program to CollegeInvest loans acts as an incentive for students to choose CollegeInvest as their lender. However, as noted previously, the Board committed $4 million to fund LIFT Teachers, which came from CollegeInvest's accumulated profits from student loans. Therefore, it does not appear that CollegeInvest relied on current proceeds to fund the LIFT Teachers program. Also, as noted, CollegeInvest planned to fund the GRADS and GRP with the net revenues from student loans issued using the bonds from Denver and El Paso Counties' Private Activity Bond allocations, which CollegeInvest projected to be worth about $2.5 million. Finally, as we will discuss later in this chapter, CollegeInvest may have excess reserves in the future that could be used as a source for loan forgiveness programs.

We interviewed staff from four other states with similar programs and from the federal Teacher Loan Forgiveness Program and found that all of them had more inclusive eligibility requirements than do most of CollegeInvest's programs. For example, all the states and the federal program allow all holders of federal student loans, regardless of lender, to participate in the program. We noted that the other states appeared to have significantly higher teacher loan forgiveness participation rates than Colorado has. For instance, Florida awarded loan forgiveness to more than 4,000 teachers in a single year (2008) while LIFT Teachers has awarded loan forgiveness to only 468 teachers over its eight-year life.

CollegeInvest should ensure that all current and future loan forgiveness programs have the most inclusive eligibility requirements possible by not requiring that applicants own a CollegeInvest loan to participate. For the LIFT Teachers program, CollegeInvest will need to work with the General Assembly to remove statutory requirements that program participants hold a CollegeInvest loan.

Funding. Setting up a separate account with a predetermined amount of funding promotes participation in loan forgiveness programs not only by ensuring that funds are available for the program but also by allowing for the tracking and evaluation of administrative costs. Separate accounts also allow the funding and expenses of programs to be examined individually which promotes accountability and transparency in the use of loan forgiveness funds. Currently CollegeInvest has a separate fund for the LIFT Nursing program, as required by statute. As noted previously, the Board designated $4 million for LIFT Teachers; however, CollegeInvest has commingled these monies with its student loan funds.

CollegeInvest has neither set aside funds for GRADS and GRP nor set up a separate account to track the programs' administrative costs.

Because CollegeInvest does not track most of its loan forgiveness funds separately in its accounting system, we could not determine what costs had been charged to the programs or if the administrative costs were reasonable. More importantly, CollegeInvest itself cannot easily monitor these costs for program management purposes. CollegeInvest should consider establishing a separate code in its accounting system for each loan forgiveness program and using these codes to track both the money allocated to the programs and each program's administrative costs.

Performance metrics. Programs with specific public policy goals need valid performance metrics to allow agencies, the General Assembly, and the public to determine if the programs are meeting those goals. Although CollegeInvest tracks participation numbers, we found that it does not have any performance indicators, metrics, or measures to demonstrate that its loan forgiveness programs are meeting their goals. The lack of performance measures weakens CollegeInvest's accountability for these programs. For example, LIFT Teachers has helped 468 teachers over its eight-year life. Nevertheless, without established performance goals, neither we nor CollegeInvest can assess whether the program has been successful (i.e., whether 468 teachers served is a measure of good, mediocre, or poor program performance). Establishing performance measures for its loan forgiveness programs would not only allow CollegeInvest to track the success of the programs but also provide information about what works and does not, which staff can use to increase program participation.

Payments. We found that all of CollegeInvest's loan forgiveness programs (except for the LIFT Teachers program, as previously discussed) make payments on an annual basis that are applied to loan principal alone. We also found that other states and the federal government typically make loan forgiveness payments on an annual basis or in one lump-sum payment. CollegeInvest should adopt a policy that all future loan forgiveness programs will use the annual payment method to ensure that borrowers receive the greatest long-term benefit.

CollegeInvest's loan forgiveness programs serve important public policy needs, which make the seemingly low participation numbers disappointing. Establishing a set of "model" policies, outlined above and designed to maximize participation in all loan forgiveness programs, would help CollegeInvest better ensure that these programs meet their public policy goals.

Recommendation No. 6:

CollegeInvest should improve the effectiveness of and participation in all current and future loan forgiveness programs by:

a. Allowing qualifying applicants with a federal student loan, regardless of lender, to participate in these programs. CollegeInvest should work with the General Assembly as necessary to change statutory requirements for existing programs.

b. Developing outreach strategies that directly contact potential participants, such as identifying databases and other resources that track those who may qualify for the program.

c. Creating a separate code in its accounting system for each loan forgiveness program that would track funds allocated to the programs and the programs' administrative costs and monitoring these for reasonableness.

d. Developing performance measures for each program, evaluating whether the programs are meeting those measures, and making improvements as needed.

e. Ensuring that all future loan forgiveness recipients receive payments on an annual basis that are applied to loan principal only.

CollegeInvest Response:

Partially agree. Implementation date: N/A–Only in conjunction with a new loan forgiveness program.

These loan forgiveness programs, except LIFT Nursing, have been closed to new participants as of this fall. The current credit market disruption has significantly increased our cost of debt and potentially affected our future ability to meet all of our debt obligations. Therefore, it is not prudent to continue any of these programs funded from our indentures. Given that the LIFT Teachers (as currently structured), GRADS, and GRP are closed or closing as of this fall to new participants, none of these recommendations would be applicable except potentially establishing accounting codes to track expenditures. The ongoing maintenance costs of these programs are not significant and, therefore, we feel the costs of establishing such a system would exceed the benefits.

However, should we offer loan forgiveness programs in the future we will evaluate (1) strategies to reach more potential participants, (2) accounting codes to track costs of larger loan forgiveness programs, (3) loan eligibility requirements, and (4) refine measurements for evaluating the program. With respect to LIFT Nursing, we agree to evaluate additional strategies to reach potential recipients and to enhance measurements for evaluating the program by December 2009. The final recommendation has been addressed in the response to Recommendation No 5.

Excess Reserves

As mentioned previously, CollegeInvest makes profits from student loans because of the spread between the interest rates charged to students for the loans and the interest paid out on the bonds issued to fund the loans. CollegeInvest has used these profits in the past to fund activities such as scholarship and loan forgiveness programs, the Prepaid Tuition Fund, and start-up costs for new College Savings Plans. For example, CollegeInvest contributed nearly $50 million to the Early Achievers Scholarship Trust Fund in Fiscal Year 2006 using excess reserves that it had accumulated over several years in the Borrower Benefit Fund and the Bond Funds. CollegeInvest also funded the LIFT Teachers program and annual Service Scholarships and Opportunity Scholarships (through 2008) from excess reserves that it accumulated from its student loan profits. CollegeInvest is a state agency and therefore is responsible for using its profits to further its statutory mission of increasing access to higher education. Using these profits to fund scholarship and loan forgiveness programs is consistent with CollegeInvest's statutory mission, particularly since House Bill 08-1201 specifically gave CollegeInvest the authority to fund scholarship and loan forgiveness programs.

CollegeInvest's student loans are held in three separate indentures, which are contracts between CollegeInvest and its bond holders that outline rates of return and terms of repayment. These indentures can have assets in excess of liabilities, in which case they may contain excess reserves that can be extracted. In order for excess reserves to be released, CollegeInvest's three indenture agreements generally require asset levels to be at 103 percent to 110 percent of liabilities. There can also be additional requirements, such as the permission of the indenture's insurer prior to the release of funds. As shown in the chart below, one of CollegeInvest's indentures had assets of 123 percent of liabilities as of March 31, 2009, which is significantly in excess of the range generally required by indenture agreements. However, CollegeInvest reported that the indenture's insurer is not allowing any assets to be released because of current market conditions. Staff could not provide any documentation or written agreements to confirm this. Therefore, it may not be possible to extract any excess assets from

CollegeInvest's indentures at the current time. However, when market conditions improve, these indentures potentially have value that could be used for scholarship and loan forgiveness programs.

CollegeInvest Student Loan Indentures As of March 31, 2009 (Dollars in Millions)			
Indenture Agreement	**Indenture Assets**	**Indenture Liabilities**	**% Assets Available to Meet Liabilities**
1999 Insured Indenture	$177.6	$144.0	123%
1999 Senior/Subordinate Indenture	$1,417.2	$1,390.0	102%
2008 Master Indenture	$215.6	$199.2	108%
Source: Office of the State Auditor's analysis of CollegeInvest Investor Reports, March 31, 2009.			

In the past, CollegeInvest has contributed to scholarship and loan forgiveness programs on an ad hoc basis; when reserves built up, CollegeInvest and its Board created or funded a program. Neither statute nor Board policy requires CollegeInvest to develop a plan for using excess reserves. However, there should be an overall strategy that (1) requires CollegeInvest to review its excess reserves on a regular basis, (2) specifies the minimum level of reserves needed for CollegeInvest's operational needs, (3) outlines how any excess reserves should be used for scholarship and loan forgiveness programs, and (4) includes a plan for funneling excess reserves to designated programs. For example, the excess reserves could become an additional source of funding for the Early Achievers Scholarship Trust Fund. The Board should also ensure that it documents its annual discussion of excess reserves in its meeting minutes. Although any excess reserves may not be available for release at the present time, a plan should be in place for their use when they are available. In this way, the Board and CollegeInvest can ensure that student loan profits are routinely funneled back into scholarship and loan forgiveness programs that benefit Coloradans.

Recommendation No. 7:

CollegeInvest should calculate its excess reserves annually and work with the CollegeInvest Board to develop a plan in which excess reserves are funneled into scholarship and/or loan forgiveness programs once excess reserves are determined. The Board should document its annual discussion of excess reserves in Board minutes.

CollegeInvest and CollegeInvest Board Response:

Partially Agree. Implementation date: Implemented.

CollegeInvest agrees that we should continue to compute equity resources in our indentures annually and evaluate the use of those resources with respect to our overall financing plan and business risks. These discussions will continue to be documented in the Board minutes. To the extent there are “excess” reserves we will dedicate those resources to fund scholarships and loan forgiveness programs as we have in the past. Since 2001, CollegeInvest has funded over $140 million in reduced fees on loans, scholarships, loan forgiveness programs, and outreach efforts.

However, the CollegeInvest student loan business is a highly leveraged and complex financial operation. There are a number of business risks that need to be considered in making any determination of “excess” reserves. These include among others: interest rate risk, counter-party risk, default risk, market liquidity risk, legislative risk, and asset guarantee risk. Our total combined equity for all trusts is only 104.45%, well below equity levels needed in current markets to maintain strong credit ratings. Individual trusts cannot be treated independent of the overall financial risks of all trusts.

While an overall formula or parity level can be one means to assess the availability of excess reserves, it is not the only consideration. Business risks and market conditions change quickly, and CollegeInvest and the Board need to exercise prudent business judgment in determining if any “excess” resources actually exist. Discussion of the potential for any excess will be discussed annually and determination of “excess” documented. As demonstrated in the past, we make every effort to take these actions and make funds available for students when it is prudent and fiscally responsible to do so. However, given the proposed elimination of the Federal Family Education Loan program, federal limitations on student loan yields, and the foreseeable state of the credit markets, we do not anticipate any “excess” reserves to be available for many years. Our primary fiduciary obligation is to ensure the financial integrity of our trusts and to ensure repayment of our obligations.

Administrative Expenses

Chapter 3

Administrative expenses are the costs associated with the overall functioning of a state agency in furtherance of its statutory mission. In the case of CollegeInvest, administrative expenses include items such as marketing, rent, utilities, computer equipment, and necessary professional services. They do not include program expenses, such as scholarship and loan forgiveness payments, which are for the direct performance of agency functions. State agencies are recognized under state law as having a fundamental responsibility for sound financial management. Consequently, CollegeInvest has a duty to ensure that it adequately oversees and documents its administrative expenses.

During Fiscal Years 2008 and 2009, CollegeInvest incurred a total of more than $12 million in administrative expenses, not including employee salaries and benefits. Statutes, state fiscal rules, and CollegeInvest policies provide requirements on documenting the appropriateness of CollegeInvest's administrative expenses. In general, these guidelines require that CollegeInvest have a sound accounting system, that expenses be reasonable and necessary for state business, and that CollegeInvest limit the types of expenses that its funds can be used for.

We reviewed CollegeInvest's accounting and administrative controls to determine their effectiveness and to ensure that its administrative expenses were reasonable and conformed to state fiscal rules and CollegeInvest's internal policies. Although our audit focused on CollegeInvest's scholarship and loan forgiveness programs, we reviewed all of CollegeInvest's administrative expenses because these expenses are often allocated among CollegeInvest's various programs. As discussed in this chapter, we found areas for improvement related to CollegeInvest's management of its administrative expenses, such as questionable expenses, inconsistent controls, and inaccurate cost allocations.

Questionable Expenses

We reviewed a sample of 40 administrative expenses totaling almost $291,000 made by CollegeInvest during Fiscal Years 2008 and 2009. We selected half the sample randomly, and half based on a review of all administrative expenses made during the sample period. We found seven questionable expenses (18 percent) totaling almost $45,000 (15 percent) of our sample. We questioned these expenses because they violated a specific statute, Colorado Constitutional provision, or state fiscal rule. In some cases, the fiscal rule being violated simply

states that all expenses by state agencies must be reasonable or necessary given the circumstances. In other words, the expense either did not reflect the actions a prudent person would take in the circumstances or did not appear necessary for CollegeInvest to meet its statutory mission. The seven expenses fall into the following four categories, with some expenses being included in more than one category.

- **Donations.** Two of the expenses were donations to a non-profit organization and a high school softball team totaling $10,250. The Colorado Constitution [Article V, Section 34] generally prohibits state agencies from making donations. CollegeInvest stated that it considered these two expenses to be sponsorships. However, in one of the cases, CollegeInvest received a letter thanking it for its support. The letter reported the value of the services received by CollegeInvest in connection with the expense to be worth $500. Since the total expense was $10,000, this means that the remaining $9,500 would be considered a donation. In the other case, the organization sent a letter to CollegeInvest thanking it for its donation, and the letter did not indicate that CollegeInvest received any services related to the expense. CollegeInvest's other sponsorship agreements that we tested did not have donation letters included in the supporting documentation.

- **Meals.** Two of the expenses involved meals for CollegeInvest staff, Board members, and Board members' families paid for by CollegeInvest during official functions and planning events. In one case, two meals were purchased for state employees by an outside consultant. The consultant was then reimbursed for the cost of these meals by CollegeInvest, so in effect CollegeInvest was paying for the meals. State fiscal rules only allow the State to pay for employees' meals during official or training functions and as part of a travel reimbursement, and these meals did not occur under any of those conditions. In the other case, CollegeInvest paid for meals for Board members' spouses and guests who were not involved in the planning session. This was an official function; however, state fiscal rules also require that only individuals directly related to the purpose of the function be included in the function. Finally, in both cases the cost of the meals significantly exceeded the per diem travel rates for meal reimbursements found in the state fiscal rules. In one case the average meal cost was $65 per person, compared to the fiscal rule per diem rate of $24, and in the other each meal cost $38, compared to the fiscal rule per diem rate of $26. Additionally, for the $65-per-person meal, we could not confirm what was purchased because an itemized receipt was not available. Although state agencies are not required to follow the state fiscal rule per diem rates for official or planning functions, the per diem rates provide a benchmark for determining reasonable costs.

- **Conflicts of interest.** Two expenses totaling $17,500 involved organizations that had direct ties to members of CollegeInvest's management or Board. In one case involving a $10,000 donation to a non-profit organization, a member of management belonged to the board of directors for the non-profit organization receiving the donation. Statute [Section 24-18-108(d), C.R.S.] and CollegeInvest's code of conduct explicitly prohibit an employee from performing an official act that benefits a business or other organization in which that employee has a substantial financial benefit or is engaged as counsel, consultant, representative, or agent. In the other case, involving a $7,500 sponsorship, the Board recognized that there was a possible conflict since a Board member was president of the organization being sponsored. Although the Board concluded that a conflict of interest did not exist because the sponsorship represented a small percentage of the organization's total revenue, the appearance of a conflict of interest still exists. Further, it is not clear whether the Board member who was president of the organization was required to abstain from voting on whether to approve the sponsorship. Finally, we also found this sponsorship to be questionable because the Board minutes do not show that the Board analyzed other similar sponsorship opportunities to determine whether the sponsorship in question was the best possible use of CollegeInvest's resources.

- **Other Expenses.** One questionable expense involved CollegeInvest's contracting with an outside vendor for legislative lobbying services at a cost of $17,500. Statute [Section 24-6-303.5(1)(a), C.R.S.] requires that each principal department designate one person to be responsible for the department's lobbying activities and prohibits any other agency from doing so. Therefore, it is unclear whether CollegeInvest, which is not a principal department, has the authority to hire an outside lobbyist. Additionally, since the Department already has a legislative lobbyist, CollegeInvest's use of an outside lobbyist appears to represent a duplication of efforts within the Department, which would not be the best use of limited state resources. The total value of CollegeInvest's contract with this vendor is $352,500 over a five-year period. The final questionable expense, totaling almost $1,000, involved the purchase of golfing equipment to be given to financial advisors to persuade them to receive electronic communications from CollegeInvest. In essence, CollegeInvest gave each advisor an $80 golf club so that the advisor would agree to receive marketing materials. While giving away items of nominal value for promotional purposes may be acceptable for public entities, high-dollar gifts create the perception that public funds are being abused.

Overall, CollegeInvest lacks sufficient safeguards to ensure that its administrative expenses conform to the provisions of the Colorado Constitution, statute, and state fiscal rules. For example, CollegeInvest does not have any internal policies establishing limits on the amounts spent on meals during official and training functions or on promotional gifts to businesses and their representatives. Additionally, CollegeInvest does not ensure that its existing safeguards are implemented effectively. CollegeInvest's current Board bylaws and code of conduct both contain requirements relating to conflicts of interest of Board members and staff, but these rules either are not followed or are not strict enough to prevent the appearance of conflicts of interest involving existing Board members or staff. In fact, the bylaws that govern Board members are not nearly as comprehensive or preventive as is the code of conduct which only applies to staff.

As will be discussed later, CollegeInvest allocates its administrative costs to its student loan, College Saving Plans, scholarship, and loan forgiveness programs. Questionable expenses can take valuable resources from these programs or, in the case of the College Saving Plans, needlessly drive up administrative fees for customers. Therefore, CollegeInvest should strengthen its existing policies and implement new ones as needed to ensure that all administrative expenses are appropriate. In particular, CollegeInvest should ensure that it does not make donations by expanding its documentation of sponsorship expenses to demonstrate that it receives services of at least equal value to the expense. CollegeInvest should also define when employees can receive benefits such as free meals, as well as when it is appropriate for gifts to be given to businesses and their representatives. Additionally, CollegeInvest should reinforce its existing policies regulating conflicts of interest among staff or Board members. This reinforcement could be accomplished by requiring and documenting the consideration of alternative sponsorships or by prohibiting the sponsorship of any organization that has ties to staff or Board members. Finally, CollegeInvest should obtain a formal opinion from the Attorney General's office regarding whether it has the authority to hire its own legislative lobbyist.

Recommendation No. 8:

CollegeInvest should strengthen its procedures for ensuring that its administrative expenses are reasonable and necessary. Specifically, CollegeInvest should:

a. Expand its conflict-of-interest policies to ensure that the selection of sponsorships does not reflect or create the appearance of favoritism.

b. Implement policies that establish an upper limit on the value of promotional items given to businesses and their representatives and on the amount per person that will be spent on meals during official and training functions.

c. Ensure that it does not pay for staff meals unless the meals are related to official or training functions or to business-related travel.

d. Obtain a formal opinion from the Attorney General's office regarding whether CollegeInvest has the authority to hire a legislative lobbyist.

e. Ensure that donations are not being made by expanding its documentation of sponsorship expenses to demonstrate that CollegeInvest receives services with a value of at least as much as the sponsorship expense.

CollegeInvest Response:

Partially agree. Implementation date: December 2009.

The CollegeInvest conflict-of-interest policy is clear and consistent with state policies as well as prudent business practice. CollegeInvest agrees to expand our processes and the Board will evaluate a number of options for sponsorships when there may be an appearance of a conflict. The member of management on the board of the non-profit did not perform any official act related to the sponsorship noted. However, the approval procedures will be clarified to ensure that members of management who serve on boards do not approve or perform any official act with respect to payments to such organizations.

CollegeInvest will recommend to the Board an upper limit on the value of promotional items as well as per person meal amounts in conjunction with official functions and training events. In addition, we will revise our policies and no longer pay for meals of individuals attending events that are not directly involved in the event. It is CollegeInvest's practice that meals are only paid for staff attending official or training functions and we will require that all such expenses be reimbursed using an official function form.

CollegeInvest will request a formal opinion of the Attorney General's Office regarding the use of an outside lobby firm. We will implement any changes directed by the Attorney General.

Finally, we do not make donations to non-profit organizations, both of the situations noted by the auditors were for sponsorships and one had detail

of the $10,000 of services to be received attached to the purchase order. However, we can improve documentation of all sponsorships and the benefits the organization is receiving as a result of the sponsorship.

Controls over Expenses

Statute [Section 24-17-102(1), C.R.S.] and state fiscal rules require state agencies to have internal accounting and administrative control systems that provide for adequate authorization and record-keeping procedures to ensure effective accounting control over state expenses. Testing our aforementioned sample of 40 expenses, we identified 21 (53 percent) with exceptions, representing more than $253,000 (87 percent) of the dollars sampled. The problems included insufficient supporting documentation, lack of approvals, inadequate tracking, and a travel reimbursement error. Some expenses exhibited more than one of these problems, which we describe below.

- **Insufficient supporting documentation.** We found 19 expenses (48 percent) totaling nearly $251,000 (86 percent) that lacked sufficient supporting documentation. State fiscal rules require that state agencies provide adequate supporting documentation for each expense. The missing documentation included 10 expenses that did not reference the purchase order or contract required by fiscal rule, six expenses with missing or incomplete vendor invoices, two expenses missing a receipt verifying the purchase, and one expense with no documentation of the expense. Supporting documentation provides information about the way items and services were purchased and the purpose behind the purchase; this information is essential to the process of reviewing and approving the expense. In one of the two cases missing a detailed receipt, we could not confirm that an employee actually purchased the goods worth over $1,500 for which the staff person was reimbursed. CollegeInvest was able to provide some of the missing documentation on request, such as copies of contracts and purchase orders. However, expense documentation must be available at the time the expense is being reviewed and approved in order for internal controls to be effective.

- **Missing or inadequate approvals or authorizations.** We found seven expenses (18 percent) totaling about $25,800 (9 percent) with missing or inappropriate approvals or authorizations. CollegeInvest's internal policies require that all administrative expenses be authorized at the internal departmental level (e.g., marketing department or outreach department) and then reviewed and approved by both the accounting

department and upper management. Specifically, two expenses totaling about $6,000 lacked the required approvals from upper management; three expenses, totaling almost $17,700, were authorized by staff with insufficient authority; one expense of $240 was authorized by a member of management who directly benefitted from the expense; and all documentation for one expense of $1,850 was missing, so no authorizations or approvals could be verified. CollegeInvest's internal policies contain a list of positions with approval authority for expenses; however, this list does not coincide with CollegeInvest's current organizational structure.

- **Inadequate tracking of sponsorship benefits.** We found three (8 percent) expenses totaling $122,500 (42 percent) from which CollegeInvest staff may have derived personal benefit as a result of sponsorship agreements. Specifically, the vendors in these transactions gave CollegeInvest free items such as season passes and food items in addition to the marketing benefits of sponsorship. CollegeInvest stated that these items are given out as prizes for promotional drawings and are not used by staff. However, CollegeInvest has no policy prohibiting staff use of these items, and does not track when these items are received, when they are awarded, or who receives them. As a result, CollegeInvest cannot ensure that it has received all of the items as set forth in the sponsorship agreement or that the items are being used as prizes for marketing events rather than by CollegeInvest staff for their personal benefit. If these items have been used by staff, they likely qualify as gifts and may violate the Colorado Constitution's [Article XXIX Section 3, also known as Amendment 41] prohibition against government employees receiving gifts greater than $50 in one year from a single source.

- **Travel reimbursement error.** We found that one of the three travel-related expenses in our sample contained a reimbursement for meals totaling about $60 that was calculated incorrectly and resulted in an overpayment of expenses. At the time of the expense, state fiscal rules required that employees only be reimbursed for certain meals during partial-day travel. However, CollegeInvest's internal policies had been prematurely updated to reflect a change in the state fiscal rules allowing a percentage of the full per diem to be paid for all partial-day travel.

We also reviewed CollegeInvest's administrative expenses during Fiscal Year 2008 and 2009 to identify vendors with whom CollegeInvest should have had a state contract. CollegeInvest's internal policies require that a state contract be used with any vendor that is paid more than $100,000 in a single fiscal year as a way to protect the interests of the state. Further, state fiscal rules require that a state contract be used for any single expense on services of more than $100,000.

We identified 10 vendors that met the $100,000 threshold and found that CollegeInvest did not have a contract with three (30 percent) of them. None of these three involved a single transaction on services of more than $100,000; however, CollegeInvest's internal policies still required that a contract be used with these vendors. Payments made to these three vendors in Fiscal Year 2008 totaled more than $500,000.

The significant error rate identified in our sample raises concerns about CollegeInvest's management of administrative expenses. Although CollegeInvest's policies and procedures require that expenses be reviewed and approved by several different individuals, these reviews either did not occur or were not effective in identifying and preventing instances of noncompliance with applicable laws, state fiscal rules, or internal policies. Adequate internal controls are necessary to ensure that all administrative expenses are appropriate and serve CollegeInvest's purpose of improving access to higher education opportunities.

We identified several ways in which CollegeInvest should improve its internal controls over administrative expenses. First, CollegeInvest needs to ensure that all expenses have adequate supporting documentation before being approved for payment. This documentation includes, as applicable, purchase orders, invoices, contracts, receipts, and the purpose of the expense. Second, CollegeInvest needs to ensure that it adheres to its internal expense-approval policy by ensuring that all required staff approvals occur, that only authorized staff approve the expenses, and that the expense-approval policy is revised whenever the staffing organization changes. Third, CollegeInvest should state in its policies that staff may not approve expenses from which they will personally benefit. Fourth, CollegeInvest should ensure that it has contracts in place with all vendors in accordance with state fiscal rules and its own internal policies. Fifth, CollegeInvest should ensure that its travel reimbursement policies align with state fiscal rules. Finally, CollegeInvest should require that all benefits from sponsorship agreements be recorded both upon receipt from sponsors and upon disbursement to the beneficiary, and ensure that any sponsorship benefits that do get used by staff do not violate Amendment 41.

Recommendation No. 9:

CollegeInvest should improve internal controls over its administrative expenses by:

a. Ensuring that all expenses have adequate supporting documentation (e.g., purchase orders, contracts, and invoices) as required by state fiscal rules and its own internal policies.

b. Ensuring that staff approve all expenses in accordance with its expense approval policy and updating this policy, as necessary, when the staffing organization changes.

c. Prohibiting employees from approving expenses from which they will personally benefit.

d. Ensuring that contracts are executed with all vendors in accordance with its internal policies.

e. Requiring that all changes to internal policies are reviewed and approved by upper management to ensure compliance with state fiscal rules.

f. Tracking the receipt and disbursement of all benefits received from sponsorship agreements and ensuring that any benefits that are used by staff do not violate the provisions of Amendment 41.

CollegeInvest Response:

Agree. Implementation date: December 2009.

We will revise our procedures to require that all invoices be submitted for payment with complete documentation attached, and that no employee may approve an invoice in which the employee receives any perceived benefit. We will improve training and institute review procedures to ensure that purchase orders are in place for all appropriate expenses. The expense policy will be reviewed quarterly to ensure that it has been updated for any organizational changes. Changes to the organization travel policy will be signed off by the Chief Financial Officer to ensure that it is not prematurely implemented. Finally, we will establish a system to track receipt of benefits and the related disposition of such benefits.

Cost Allocation

CollegeInvest directly allocates its administrative expenses to either the program funds (e.g., student loans, one of the College Saving Plans, etc.) or to the Borrower Benefit Fund, based on which programs are benefiting from the expense. A direct allocation to a program fund indicates that the benefits of the expense can be directly associated with that program, while a direct allocation to the Borrower Benefit Fund indicates that the benefits cannot be directly associated with particular programs. Most of the expenses that are directly allocated to the Borrower Benefit Fund are then indirectly allocated among the

program funds based on CollegeInvest's indirect allocation plan. Finally, some administrative expenses (e.g., office space costs, Director's salary, IT staff salaries, human resources staff salaries, and administrative staff salaries) are shared between CollegeInvest and College Assist, the State's student loan guarantee agency, because these agencies work closely together. In some cases, administrative expenses are shared based on written agreements between CollegeInvest and College Assist. However, in other cases, there is only an informal agreement.

Cost allocations not involving federal funds are not governed by any statutes or state fiscal rules, so we looked to federal cost accounting principles for guidance. The purpose of allocating administrative expenses is to ensure that each program is paying for the expenses based on the benefit it derives from those expenses. We compared CollegeInvest's allocation of administrative expenses with the supporting documentation provided about each expense and found that CollegeInvest does not allocate administrative expenses consistently and accurately, given the purpose of the expenses. If allocations are not done consistently and accurately, based on analysis of the individual programs, some programs may be deriving benefits from expenses that are being paid for by other programs. Each of CollegeInvest's programs is funded by a different set of clients, and those clients should be paying only for administrative expenses that benefit their programs. For example, if the College Savings Plan Funds are paying for administrative expenses that should be charged to the Student Loan Program Funds, then the clients who are saving long term for college tuition are subsidizing benefits for students who have taken out student loans. Also, when administrative expenses are not allocated accurately based on their benefits to programs, CollegeInvest cannot accurately assess whether administrative costs are reasonable, given program activities. In reviewing CollegeInvest's allocations of administrative expenses, we identified concerns in three areas, as described below.

Direct Allocations. CollegeInvest does not directly allocate administrative expenses consistently or based on the benefits derived by individual programs. We reviewed the direct allocations from our sample of 40 expenses and found problems with 16 (40 percent) totaling almost $180,000. These problems fall into the following categories, with some expenses displaying more than one problem:

- **Direct allocation does not match purpose of expense.** In 13 cases (33 percent) totaling more than $161,000, CollegeInvest did not allocate expenses to all of the funds that benefited from them. Specifically, in 10 cases CollegeInvest allocated expenses only to the College Savings Plan Funds or only to the Student Loan Program Funds even though other funds or CollegeInvest as a whole clearly benefited. For example, a $10,000 expense that marketed CollegeInvest as a whole was allocated only to the

College Savings Plan Funds instead of being spread across all programs. Also, in three cases CollegeInvest allocated marketing expenses, such as those for a brand awareness study, to both the Student Loan Program Funds and the College Savings Plan Funds but not to any other program. For these three expenses, CollegeInvest did not document how these expenses benefitted the College Savings Plan Funds and Student Loan Program Funds but not CollegeInvest's other programs.

- **Only two of the College Savings Plan Funds were included in the direct allocation.** In 12 cases (30 percent) totaling more than $174,000, CollegeInvest directly allocated expenses to only two of the three College Savings Plan Funds, leaving the Stable Value Plus fund out of the allocation. Each of the College Savings Plan Funds is operated through its own sub-fund; however, the purpose of each plan is the same. Therefore, administrative expenses that were allocated between two of the funds should have been allocated among all three. Despite its policy of splitting College Savings Plan Funds costs among the three different Plan funds based on assets, CollegeInvest stated that it does not allocate administrative expenses to the Stable Value Plus fund because it only makes up 1 percent of the total College Savings Plan Funds assets. However, the Stable Value Plus plan's account holders are charged administrative fees, CollegeInvest staff allocate time to the Stable Value Plus plan, and the Stable Value Plus plan benefits from administrative expenses such as marketing for the College Savings Plan Funds as a whole. Therefore, it is not reasonable to leave the Stable Value Plus plan out of the direct allocation of expenses. In addition, leaving out the Stable Value Plus plan misstates the plan's true administrative costs.

- **Borrower Benefit Fund pays for legislative lobbying and Board expenses.** In one case (3 percent) totaling $17,500, a legislative lobbying expense was directly allocated to the Borrower Benefit Fund but was not subsequently allocated to any program funds. CollegeInvest's policy states that legislative lobbying and Board expenses will not be paid by program funds and will instead be paid out of the Borrower Benefit Fund. However, this is not an appropriate policy or an effective way to avoid additional expenses for the program funds. Since the Borrower Benefit Fund is made up of program fund net income, charging administrative expenses to the Borrower Benefit Fund only artificially lowers costs to the program funds. In fact, paying an expense out of the Borrower Benefit Fund is basically the same as indirectly allocating that expense to the program funds based on the revenue they provide, which does not align with the rest of CollegeInvest's indirect allocation strategy. The purpose of CollegeInvest's indirect allocation strategy, which does not include a revenue-based methodology, is to ensure that costs are paid by the

programs based on the benefit each program receives. The fact that these expenses are effectively being indirectly allocated to the program funds based on a revenue methodology makes it unlikely that the programs are accurately paying for their share of expenses based on their portion of the benefits. Therefore, CollegeInvest's policy of paying for legislative lobbying and Board expenses from the Borrower Benefit Fund neither saves the program funds money nor allocates the expenses accurately among the program funds.

CollegeInvest does not have any internal policies relating to the direct allocation of administrative expenses that would guide staff on which funds should receive direct allocation of particular types of expenses. However, CollegeInvest does have such policies relating to the direct allocation of salary expenses, and these policies provide an excellent example of how the direct allocation policies might look. By listing specific projects and examples of job duties and how each should be coded, this policy would give staff a basis for deciding how administrative expenses should be directly allocated.

Indirect Allocations. We found that CollegeInvest has not indirectly allocated any administrative expenses to the Early Achievers Scholarship Trust Fund since its inception in Fiscal Year 2006. According to policy memos, the Trust Fund does not increase CollegeInvest's overall administrative costs, making an indirect allocation to the fund unnecessary. However, CollegeInvest's methodology is to indirectly allocate administrative expenses based primarily on how staff charges their time to individual programs. For example, in Fiscal Year 2008, staff spent about 72 percent of their time on the student loan program, so 72 percent was the proportion used to indirectly allocate expenses to the Student Loan Program Funds. We found that, in Fiscal Year 2008, CollegeInvest staff charged about 3 percent of their time to the Trust Fund—a larger percentage than was charged to the Prepaid Tuition Fund and as much as was charged to the Stable Value Plus fund, both of which are included in the indirect allocation policy. Therefore, CollegeInvest should include the Trust Fund in the indirect cost allocations. Because the Trust Fund is not included in the indirect cost allocation, administrative expenses are being inappropriately charged to other programs. Based on the 3 percent of staff time directly charged to the Trust Fund, we estimate that about $86,400 in administrative expenses was inappropriately charged to other programs in Fiscal Year 2008.

Shared Administrative Expenses. We reviewed all of the non-salary administrative expenses shared between CollegeInvest and College Assist from Fiscal Years 2007 through 2009 and found that a majority of these expenses are not covered under any written cost-sharing agreement. For example, in Fiscal Year 2008, CollegeInvest was reimbursed about $517,000 by College Assist for non-salary administrative expenses. Of this total, about $291,000 (56 percent)

was for administrative expenses (such as network services and technology infrastructure) not covered under any written cost-sharing agreement. Additionally, we found instances where the proportion of an expense being charged to College Assist did not seem reasonable given the purpose of the expense. For example, some building maintenance costs are shared evenly between College Assist and CollegeInvest, even though CollegeInvest pays a larger proportion of the rent than does College Assist. We also found cases in which CollegeInvest made regular payments to vendors but did not consistently charge a proportion of these expenses to College Assist. Finally, we found that CollegeInvest and College Assist share five administrative support staff salaries without any formal agreement detailing the basis on which these costs are shared. Written cost-sharing agreements based on analysis of the benefits received by each organization are critical in ensuring that each organization is paying its proper share of administrative costs. Without such agreements in place, CollegeInvest cannot determine whether it is paying its fair share of administrative expenses, and there is a risk that it will be overcharged based on the benefits it receives.

CollegeInvest should assess the policies and procedures it has in place to ensure that administrative expenses are being accurately assigned to the programs they benefit. As part of this assessment, CollegeInvest should ensure that up-to-date written policies are in place to govern the direct and indirect allocation processes. These policies should include general guidelines outlining what types of expenses benefit which programs, as well as specific requirements to ensure that all programs are allocated their fair share of administrative costs. Additionally, CollegeInvest should adopt policies regarding the sharing of administrative expenses and staff with College Assist. Specifically, CollegeInvest should ensure that all cost sharing is done based on written agreements, and that that these agreements are supported by documented analysis of the benefits to each organization.

Recommendation No. 10:

CollegeInvest needs to revise its allocation of administrative expenses to ensure that all costs are paid only by the program or programs that directly benefit from them. Specifically, CollegeInvest should improve its direct and indirect allocation of costs by:

a. Implementing an internal policy that provides specific guidance on the direct allocation of administrative expenses among programs.

b. Ensuring that all programs, including all of the College Savings Plan Funds and the Early Achievers Scholarship Trust Fund, are included in direct and indirect allocations.

c. Reevaluating its policy of using the Borrower Benefit Fund to pay for some administrative expenses rather than allocating them to the funds that benefit from the expenses.

d. Ensuring that all costs shared with College Assist are allocated to each organization in accordance with an approved written agreement between the two organizations that accurately reflects the benefits incurred by each organization.

CollegeInvest Response:

Partially Agree. Implementation date: June 2010.

Due to the nature of indirect costs, allocations are always based on professional judgments and estimates. CollegeInvest agrees that we will continue to make our best efforts to appropriately allocate cost by first expanding internal policies to provide specific guidance on the direct allocation of normal and recurring administrative expenses to the related programs. CollegeInvest will recommend to the Board to allocate indirect administrative costs to the Early Achievers Scholarship Trust Fund and Stable Value Plus Fund consistent with the allocations to other funds and amend the budget as deemed appropriate. CollegeInvest will reevaluate its policy of the Borrower Benefit Fund absorbing certain operating costs. Finally, the budget documents for CollegeInvest and College Assist document the costs that are to be "shared" between organizations that are not otherwise covered under the MOU's regarding allocations of certain costs. Every effort is made during the budget process to ensure that costs are equitably shared. We will document "an agreement" for any expense that may not be included in the budget documents as a result of changing circumstances.

Auditor's Addendum:

A signed, written agreement between CollegeInvest and College Assist which specifies (a) how costs will be shared and (b) the basis for the allocation of shared costs is a necessary control to ensure that shared costs will be allocated according to the benefits each organization receives from those costs. Budget documents, which are flexible and subject to change, are not a sufficient control for ensuring that shared costs between CollegeInvest and College Assist are allocated appropriately. Further, the approved budget documents provided

to us by CollegeInvest did not document how costs would be shared between CollegeInvest and College Assist.

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