



**REPORT OF  
THE  
STATE AUDITOR**

**Metropolitan State College of Denver  
Student Full-Time Equivalent Enrollments**

**Performance Audit  
March 2000**

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Members of the Legislative Audit Committee:

This report contains the results of the performance audit of Metropolitan State College of Denver Student Full-Time Equivalent Enrollments. This audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government.

This report presents our findings, conclusions, and recommendations, and the responses of the Metropolitan State College of Denver and the Colorado Commission on Higher Education.

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J. DAVID BARBA, CPA  
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**METROPOLITAN STATE COLLEGE OF DENVER  
STUDENT FULL-TIME EQUIVALENT ENROLLMENTS  
PERFORMANCE AUDIT  
MARCH 2000**

**Authority, Purpose, and Scope**

This audit of Metropolitan State College of Denver (Metro) student full-time equivalent (FTE) enrollments was conducted pursuant to Section 2-3-103 et seq., C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. Our audit focused on whether Metro computed its student enrollment in accordance with Colorado Commission on Higher Education (Commission) policies and if Metro reported accurate student FTE enrollment statistics. To accomplish our audit objectives, we reviewed student files, interviewed staff, and analyzed data provided by the Commission and Metro. We focused on the full Fiscal Year 1999 (Summer 1998, Fall 1998, and Spring 1999 semesters) and a portion of Fiscal Year 2000 (Summer 1999 and Fall 1999 semesters). The audit work, performed from December 1999 through February 2000, was conducted according to generally accepted government auditing standards.

We gratefully acknowledge the assistance and cooperation extended by management and staff at the Metropolitan State College of Denver and the Colorado Commission on Higher Education.

**Metro Generally Complied with the Student FTE Enrollment Reporting Policies**

We concluded that Metropolitan State College of Denver was, for the most part, in compliance with state law and the Commission's student FTE reporting policies. However, we detail some exceptions in this report. Our review included examination of final student enrollment, internal controls, the 98 percent tuition collection rule, add/drop transactions, tuition waivers, Type B Instruction, residency determination, course eligibility, and alternative delivery courses.

**Metro Should Comply with Commission Policies for Reporting FTE Generated Through Off-Campus Programs**

Commission policies allow four-year institutions to receive state funding for a limited number of FTE generated through approved off-campus programs. Metro received Commission approval to offer four urban baccalaureate off-campus programs generating a total of 115 state-funded FTE. Commission policies also require that state-funded FTE from urban baccalaureate programs come from only upper division courses required for the approved off-campus programs. Our audit work indicated that Metro abided by the upper division course limitation for its off-campus programs in

Fiscal Year 1999. Metro recently revised its interpretation of Commission policies and, therefore, submitted a significant number of ineligible lower division courses for funding in Fiscal Year 2000. However, on the basis of our audit work, Metro representatives removed the ineligible FTE from the updated enrollment information used for Fiscal Year 2001 figure setting. **We recommend that Metropolitan State College of Denver submit FTE generated through off-campus programs in compliance with Commission policies.**

### **The Commission Should Revise its Policies Regarding Funding of Online Courses**

The largest area of growth in the curriculum offerings of state-supported colleges and universities is in the area of alternative delivery courses. During the audit we received conflicting information regarding the eligibility of state funding for courses delivered through alternative delivery methods, specifically online courses. Commission representatives stated that policies limit the type of online courses eligible for state funding. However, we found that since the Fall semester of 1996, the Commission allowed Metro and other state-supported institutions to receive state funding for the vast majority of their online courses. Thus, **we recommend that the Commission review and revise its policies to ensure that current practices for state funding of alternative delivery courses remain in effect and ensure that these policies are communicated to all state-supported institutions.**

### **The Commission Should Identify the Cost of Providing Courses**

State-supported institutions, including Metro, submit eligible resident student FTE to the Commission for state funding. According to Commission staff, the purpose of the state's reimbursement of resident FTE is to cover a portion of the institution's cost of educating resident students. Costs to create and deliver alternative delivery method courses may differ from those associated with providing a traditional classroom course. Currently, however, the Commission provides the same level of reimbursement for all eligible courses regardless of the actual cost of providing the course. Therefore, **we believe the Commission should oversee a cost study of all factors and expenses associated with the both lecture courses and courses offered through alternative delivery methods.**

### **Additional Assurance Regarding Residency Is Recommended**

Due to the difference between in-state and out-of-state tuition rates, students have a significant financial incentive to claim residency even if they are not eligible (i.e., in-state tuition of \$936 versus out-of-state tuition of \$3,787, per semester). In addition, institutions have no financial incentive to scrutinize evidence of residency because they only receive state funding for credit hours generated by in-state residents. Our audit work found that 36 percent of the sample files we reviewed lacked any relevant evidence of in-state residency beyond the self-reported information on the application. **We recommend that Metro implement criteria requiring adequate evidence of eligibility for**

**in-state tuition.**

### **Summary of Agency Responses**

The Metropolitan State College of Denver and the Colorado Commission on Higher Education generally agreed with our recommendations. Their full responses are located in the audit report.

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### RECOMMENDATION LOCATOR

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<b>Rec. No.</b>	<b>Page No.</b>	<b>Recommendation Summary</b>	<b>Agency Addressed</b>	<b>Agency Response</b>	<b>Implementation Date</b>
1	13	Metropolitan State College of Denver should submit FTE generated through off-campus programs in compliance with Commission policies. If Metropolitan State College believes additional courses and student FTE should be eligible for state funding, it should either amend its off-campus program proposals or propose amendments to the Commission's off-campus policies.	Metropolitan State College of Denver	Agree	As Soon As Possible
2	17	The Colorado Commission on Higher Education should review and revise its policies to ensure that current practices for state funding of alternative delivery courses remain in effect and ensure that these policies are clearly and consistently communicated to all state-supported institutions.	Colorado Commission on Higher Education	Partially Agree	July 2000

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## RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
3	19	The Colorado Commission on Higher Education should oversee a cost analysis to detail the costs associated with providing courses through each alternative delivery method as well as traditional lecture courses. This analysis should identify all indirect and direct costs incurred by offering the course including start-up costs and costs over an extended period. On the basis of the results of this cost study, the Commission should consider altering the reimbursement rate for all courses based on the actual costs of offering the course.	Colorado Commission on Higher Education	Agree	Initiation: July 2000
4	21	<p>The Metropolitan State College of Denver should:</p> <ul style="list-style-type: none"> <li>a. Develop written guidelines to determine eligibility for in-state residents.</li> <li>b. Require adequate evidence to ensure the eligibility of students classified as in-state residents.</li> <li>c. Conduct a representative sample of incoming freshmen to determine eligibility of in-state tuition recipients.</li> </ul>	Metropolitan State College of Denver	Agree	September 2000

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# Funding for Higher Education

## Chapter 1

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### Overview of the Colorado Commission on Higher Education

Colorado's public colleges and universities are organized under the Department of Higher Education. The Colorado Commission on Higher Education (Commission) functions as the Department's policy-making and coordinating body. The Commission's authority over state-supported institutions of higher education includes:

- Determining the roles and missions of state colleges and universities.
- Establishing policies for reporting student Full-Time Equivalent (FTE) enrollments consistent with the role and mission of each state-supported institution.
- Distributing general fund appropriations and tuition monies to the governing boards.
- Establishing policies for setting tuition and fee rates.
- Setting academic admission standards.

The Commission allocates state appropriations for higher education among the six governing boards that have oversight of the State's 28 public colleges and universities.

### Funding of State Colleges and Universities

Section 23-1-105(3), C.R.S., requires the Commission to consult with the governing boards to establish the distribution formula for appropriated general funds and cash funds received as tuition. This distribution formula recognizes both fixed institutional costs as well as those costs which vary depending on the character of programs and the number of students enrolled. As a result, the reporting of student FTE plays a role in the amount of state funding received by various institutions.

The General Assembly determines the overall funding for higher education on an annual basis. Currently institutions receive base general funds that represent the prior year's funding as well as additional general funds based on a combination of increases in inflation and enrollment for each school. Each institution calculates its enrollment based on policies created by the Commission. These policies implicitly define the

factors that contribute to student FTE enrollment totals. According to Commission policies, "student credit hour production drives the required resources." In-state resident students who attend classes on campus comprise the bulk of the FTE enrollment total. The Commission established guidelines in its *Policies for Reporting Full-Time Equivalent Student Enrollment*. In this manual the Commission sets guidelines that state schools use to report student FTE, including:

- Courses and their student enrollment that are reportable for state funding.
- Credit hours that may be reported for various types of instruction.
- Credit hours and courses that are not reportable for funding.

Under the Commission's policies, institutions calculate FTE eligible for state funding based on a combination of course credit hours and student headcount. State colleges and universities report resident and nonresident credit hours and student FTE to the Commission in the Final Student Enrollment report. The Commission uses the inflation rate and this enrollment information to request increases in general fund appropriations for the state-supported institutions. The reported resident credit hours and FTEs are part of the distribution formula to give state funding to each of the six higher education governing boards. The boards then distribute the funding among their respective schools.

## **Metro Generally Complied with Student FTE Enrollment Reporting Policies**

Our audit work focused on Metropolitan State College of Denver (Metro) and whether it is reporting resident FTE in compliance with Commission policies. We focused on the full Fiscal Year 1999 (Summer 1998, Fall 1998, and Spring 1999 semesters) and a portion of Fiscal Year 2000 (Summer 1999 and Fall 1999 semesters).

We reviewed several areas that impact student FTE reporting. These include final student enrollment, internal controls, the 98 percent tuition collection rule, add/drop transactions, tuition waivers, Type B Instruction, residency determination, course eligibility, and alternative delivery courses. In the areas tested we found that, for the most part, Metro was in compliance with state law and Commission policy; exceptions are noted later in this report. Detailed below is a brief description of our review:

- **Final Student Enrollment and Internal Controls**-The Final Student Enrollment (FSE) report includes Student Headcount, Total Credit Hours

Generated, and calculated FTE for both in-state and out-of-state students. The accurate reporting of these figures links directly to the amount of state funding the institution is eligible to receive. The Commission requires that the enrollment report be prepared according to its policies and to "present fairly the enrollment of the institution." Our review of Metro's Final Student Enrollment report and its internal controls for Fiscal Year 1999 showed that Metro provided adequate documentation to support all the numbers it reported. However we identified problems with the Fall 1999 census data, which we discuss later in the chapter.

- **98 Percent Tuition Collection Rule**-According to Commission policy:  
(If a student has any outstanding tuition obligations but is permitted to enroll for a subsequent term at the same institution the credit hours generated by the student in the subsequent terms shall not be reported. Compliance with this requirement is waived for institutions that collect at least 98 percent of the [all] tuition due [by June 30].

We found that Metro did not collect 98 percent of its tuition due as of June 30, 1999. However, Metro developed an internal control system that prevents students from registering for a subsequent term if they have an outstanding tuition balance, regardless of the amount of overall tuition collected by the institution. We reviewed a sample of ten students with outstanding balances and found that none had registered in subsequent terms unless full payment had been received. Thus, our audit work indicates that Metro's internal control system prevents students with balance due accounts from registering and, therefore, from being included in the Final Student Enrollment report.

- **Add/Drop Transactions**-We conducted testing in this area because of the recent introduction of a new computer system at Metro. Commission policies dictate the point at which a student adding or dropping a course can or cannot be included in the final FTE enrollment figure. Our review of 30 student files from Fiscal Year 1999 indicated that the computer system correctly classified all add/drop transactions in compliance with Commission policies.
- **Tuition Waivers**-Commission policies allow institutions to offer tuition waivers to permanent employees. However, policies prevent the credit hours generated by these employees from being included in the Final Student Enrollment report. Our review of tuition waivers for Fiscal Year 1999 showed that Metro accurately subtracted all FTE generated from employee tuition waivers from the Final Student Enrollment report.

- **Type B Instruction**-At Metro, Type B Instruction consists of Independent Study, Study Abroad, and Alternative Delivery Courses. Commission policies require that institutions establish outcomes, course descriptions, and minimum contact hours for these types of courses. Also, institution records must document how the number of credits awarded was determined. Our review of a sample of courses indicated that Metro is generally in compliance with both its own and Commission policies. However, we identified some problems in the area of alternative delivery courses, which we discuss later in the chapter.

## **Commission Policies Limit Funding of Off-Campus FTE**

The Colorado Commission on Higher Education permits each state-supported institution to deliver instruction beyond its main campus. Generally, FTE generated from courses offered outside of a four year institution's main campus are not eligible for state funding. Extended campus programs fall into two categories. One category enables institutions to provide both credit and noncredit courses through cash-funding. Commission policies prohibit FTE generated through cash-funded programs to be submitted for state funding.

The second category of extended campus programs allows institutions to receive state funding for student FTE associated with complete degree or certification programs provided at off-campus locations. Eligibility for state funding is determined by the Commission after the institution submits a detailed proposal including a list of all courses that will be a part of the program. As part of its approval process, the Commission also limits each approved off-campus program to a specific number of state-funded FTE. Statewide, the Commission only authorizes state funding for a total of 875 FTE generated through approved off-campus programs.

According to the Commission's policies, the purpose of approved off-campus programs is to widen Colorado residents' access to complete degree or certification programs. "Complete program" is defined for each off-campus program through a combination of the Commission's *Policies and Procedures for Off-Campus State-Funded Programs* and the program proposal submitted by the individual institutions. For example, Commission policies only allow state funding for FTE generated through upper-division (junior and senior level) classes that are a part of an approved off-campus urban baccalaureate program. Commission representatives noted it imposed this limitation for two reasons. First, the overall off-campus program only provides funding for a total of 875 FTE; providing state funding for all classes required for a baccalaureate degree would greatly limit the number of approved off-campus programs. Second, the community college system offers all lower-division courses included in an approved off-campus urban baccalaureate degree. These lower-division

courses are state-funded at the community college level. Commission representatives stated that the five community colleges with multiple sites serving the Denver metropolitan area can be easily accessed by all students. As a result, the Commission defines "complete degree" for an approved off-campus urban baccalaureate program as only upper-division courses.

Metro submitted proposals and obtained Commission approval to offer four off-campus state-funded programs during Fiscal Years 1999 and 2000. These approved programs provide baccalaureate degrees in Accounting (15 FTE), Management (20 FTE), Behavioral Science (35 FTE), and Computer Information Systems and Management Science (45 FTE). Under Commission policies, Metro's off-campus programs are considered urban baccalaureate and therefore only FTE generated through required upper-division courses may be submitted for state funding. Metro acknowledged the upper-division limitation by detailing in its program proposals that it would only seek state funding for required upper-division courses. According to the Metro program proposals, all lower-division courses required for the approved programs would be either offered through Arapahoe Community College or cash-funded through Metro. The Commission agreed to provide state funding for a total of 115 FTE generated through the four approved off-campus programs.

Our audit work found that Metro's off-campus programs were in full compliance with Commission's policies for Fiscal Year 1999. Metro submitted 110.2 FTE from its approved off-campus programs for state funding. As required, this was under the maximum limit of 115 FTE. In addition, we noted that only FTE generated from upper-division courses were included. Our calculations indicate that the 110.2 FTE represented \$361,236 in state general funds.

## **Metro Submitted Ineligible Courses for Funding**

Prior to the Summer semester of 1999, Metro personnel reexamined the Commission's policies for off-campus state-funded programs. Metro's review focused on the Commission requirement that off-campus programs offer a "complete" degree. According to one Commission policy, "degree programs delivered off-campus shall have the same curriculum... as the on-campus program..." Metro representatives interpreted this policy to mean that its off-campus state-funded programs should offer all courses, including electives, necessary to earn a baccalaureate degree, not just required upper-division courses. They also believed that the "complete degree" requirement would allow them to submit lower-division and elective courses for state funding. According to Metro representatives, electronic mail broaching this interpretation was forwarded to Commission staff. Metro included FTE generated from lower-division and elective courses offered as part of the off-campus degree program during the Summer and Fall semesters in the Fall 1999 Census report

provided to the Commission. The Commission used these FTE estimates to develop initial budget proposals for Fiscal Year 2001.

Metro recognized specific Commission policies and disregarded others when it submitted FTE generated from lower-division and elective courses delivered off-campus for funding. This narrowed interpretation ignores Commission policies that define "complete" for urban baccalaureate programs as only upper-division courses. The revised interpretation also disregards Metro's own proposals for the approved off-campus state-funded programs which detailed that it will only submit upper-division required courses while allowing Arapahoe Community College to deliver the lower-division courses. In addition, Commission policy states that "under no circumstances will the total amount of state funds allocated be.... above the approved level of FTE." Under current policies Metro can only submit 115 FTE from its approved off-campus programs for state funding. Our work indicates that Metro reported approximately 225 FTE for the first two semesters of Fiscal Year 2000. This exceeds the 115 FTE limit by approximately 110 FTE with one semester remaining in the Fiscal Year. This additional 110 FTE equates to \$360,580 in state general funds.

Our audit work found that Metro was aware of the Commission policy limits on FTE and regulations against submitting lower-division and elective courses. In Fiscal Year 1999, Metro abided by all FTE and policy limitations for its off-campus state-funded programs. Due to its new interpretation of Commission policies, Metro submitted ineligible FTE generated from lower-division and elective courses as part of the Fall 1999 Census estimate required by the Commission. On the basis of our audit work Metro representatives removed the FTE generated from ineligible courses when it submitted updated enrollment information to the Commission in February 2000. The Commission provides this enrollment information to the Joint Budget Committee to aid in figure setting. Thus Metro removed the ineligible FTE from the final report although these FTE had been part of the original budget estimate. We support Metropolitan State College of Denver's decision not to request state funding for ineligible FTE generated from lower-division and elective courses. If Metro believes that more of the off-campus programs' courses should be eligible for state funding, Metro should propose these changes to the Commission and seek approval before submitting FTE requests beyond what is currently allowable.

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### **Recommendation No. 1:**

Metropolitan State College of Denver should submit FTE generated through off-campus programs in compliance with Commission policies. If Metropolitan State

College believes additional courses and student FTE should be eligible for state funding, it should either amend its off-campus program proposals or propose amendments to the Commission's off-campus policies.

### **Metropolitan State College of Denver Response:**

Agree. Metro State accepts the recommendation of the State Auditor.

Metro State continues to have a basic policy disagreement with the CCHE on the issue of off-campus courses that are eligible to be counted as state-funded FTE. The college believes that the CCHE's interpretation of its policies discriminate against Metro State and inhibit, if not prohibit, the college from providing programmatic access to students in the metropolitan area.

In order to serve students who cannot commute to the Auraria campus for classes because of family or work responsibilities, Metro State has established outreach centers in Thornton and at the Denver Tech Center. The college assumes significant costs in maintaining these sites and in following the CCHE policies that require Metro State to offer complete degree programs at off-campus sites containing the same courses as the college offers to its on-campus students. Since the college is required to offer these courses and programs, it is our view that these courses should be counted as state-funded FTE.

**It was not the intent of Metro State to mislead the CCHE in any way or to submit ineligible courses.**

On June 10, 1999, Dr. William Fulkerson, President of the State Colleges in Colorado, sent an e-mail to Mr. Tim Foster, Executive Director of the CCHE. In the e-mail, Dr. Fulkerson informed Mr. Foster of our interpretation of CCHE policy which required the college to offer full degree programs at off-campus sites.

In order to avoid any misunderstanding, Dr. Fulkerson told Mr. Foster that Metro State would begin to count these off campus FTE beginning in Summer, 1999. Dr. Fulkerson asked Mr. Foster to let him know if he had any problems with this change. Mr. Foster did not reply to Dr. Fulkerson, and the college began to count the off-campus FTE as directed.

Metro State will raise its concerns again with Mr. Foster and the CCHE.

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## **Funding Eligibility of Online Courses Is Unclear**

The largest area of growth in the curriculum offerings of state-supported colleges and universities is in the area of alternative delivery courses. The majority of courses offered through alternative delivery methods are those delivered online. State-supported institutions are being encouraged to offer more courses through alternative delivery methods to provide greater flexibility and opportunities to students. In fact, the quality indicator standards for Colorado's higher education system include a requirement that institutions increase the number of entire courses or courses with technology components by 10 percent every two years until 50 percent of offered courses have a technology component. According to Commission representatives, the emphasis of this requirement is on the integration and use of all types of technology, including online courses.

During the audit, we received conflicting information regarding the eligibility of courses delivered through alternative delivery methods, specifically online courses, for state funding. Commission representatives stated that its policies limit the type of online courses eligible for state funding. However, we found that since the Fall semester of 1996, Metro and other state-supported institutions have been submitting and receiving state funding for the vast majority of their online courses.

## **Confusion Exists Regarding the Commission's Online Funding Restrictions**

Metro has been steadily increasing the number of online courses it offers not only to appeal to its nontraditional student population but also to help students graduate more quickly. Our work indicated that Metro submits all of the online courses it offers for state funding. We contacted Commission representatives to verify the eligibility of online courses for state funding. Commission representatives informed us that policies only allow state funding for courses offered through alternative delivery methods including online courses when (a) they are delivered on the sponsoring institution's campus (e.g., to a dormitory room); (b) when the courses are delivered to an approved alternative delivery site; and (c) when the course is part of an approved off-campus state-funded program. According to staff, the policies prohibit state funding of online courses delivered to a student's worksite or home, which greatly limits the number of online courses eligible for funding.

We believe that enforcement of the Commission's current alternative delivery course policies would have a substantial financial impact on state-supported institutions. For

example, Metro has received funding for all online courses. However, under these policies, Metro would only be eligible to receive funding for upper-division online courses that are part of an approved off-campus program. During Fiscal Year 1999, Metro offered 53 online courses totaling 247.4 FTE and received \$810,977 in state general funds. Our work indicates that only 39.8, or 16 percent, of these FTE are upper-division online courses that are part of an approved off-campus program. If the Commission abided by its current policies, these upper-division courses would be allowable for state funding. However, the remaining 207.6 FTE would not be allowable, nor would the corresponding \$680,513 in general funds.

Metro would suffer an even greater financial impact during Fiscal Year 2000. At the time of our audit the Spring 2000 semester was still in session and final information was not available. However, in the first two semesters of Fiscal Year 2000, Metro offered a total of 67 online courses totaling 232.6 FTE and representing \$762,463 in state general funds. Under the Commission's current policies only 39.2 FTE representing \$128,498 would be allowable for funding. As a result, Metro would lose \$633,965 in state funds corresponding to the remaining 193.4 FTE. We found that enforcement of the Commission's policies limiting those alternative delivery method courses eligible for state funding would negatively impact all state-supported institutions, not just Metropolitan State College. At our request, the Commission contacted the other state-supported institutions regarding their submittal of online courses. Commission representatives reported that the vast majority of online courses offered by all state-supported institutions have received state funding during the last three years.

Despite the Commission's policies that limit state funding for alternative delivery method courses, we found that, in practice, the Commission has provided state funding for the vast majority of online courses. According to Commission staff, this inconsistency has stemmed from the recent changeover of the Colorado Commission on Higher Education personnel related to the gubernatorial shift in 1998. Our review of various Commission documents indicates that both the previous Commission and its staff intended to revise the policies to provide state funding for alternative delivery method courses including those delivered to a student's worksite or home. However, the policies were never formally revised. Commission practices since Fiscal Year 1997 also indicate the intention to fund all online courses. These include:

- A Fiscal Year 1997 form the Commission provided to all state-supported institutions allowed institutions to receive FTE reimbursement for alternatively delivered courses at a site not on the approved list (e.g., this provided funding for courses delivered to a student's worksite or home).
- A December 1997 memo issued by the Commission's Deputy Executive Director and Senior Academic Affairs Officer indicated that institutions do not

have to provide the form to claim FTE for alternative delivery courses. The memo noted that it is the intent of the policy that alternatively delivered courses are claimable for FTE funding even if the course resulted in student's using computers or workstations at their home or worksite.

- Minutes from Colorado Commission on Higher Education meetings stating that alternative delivery courses should be state-funded.
- The Cost Recovery/Reimbursement section of the Distance Learning Study presented to the General Assembly in January 2000, which states "it is the policy of [the Commission] to allow distance learning classes to be classified as resident FTE...." Commission staff indicated that distance learning classes include online courses.
- Commission policy, appendix C: B-2(2), which states that "the report on state funded instruction should not include data for any approved off-campus program. State funded instruction that is to be reported is any off-campus instruction administered by the extended studies department for which the institution may report FTE for state financial reimbursement. Normally this will be instruction that utilizes technology for delivery."

Metro representatives informed us that since Fiscal Year 1997 it has observed these policies and documents and has submitted all of its online courses for state funding. According to these representatives, the Commission approved funding for all of the online courses submitted. As we noted, Commission staff informed us that the other state-supported institutions also submitted the vast majority of their online courses for funding and were approved.

Despite its current policies, the Commission's recent practice has been to fund the vast majority of alternative delivery method courses, particularly online courses. We believe that enforcement of current policies that limit funding for these courses will have a substantial negative financial impact on all state-supported institutions. Commission staff recognizes that funding is necessary to encourage the delivery of these courses. The Quality Indicator System implemented by the Department of Higher Education encourages the use of technology-related courses and methods to help students graduate more quickly. With the growth in the number of courses offered through alternative delivery methods, state funding will continue to be a major issue. As a result, we believe that the Commission needs to establish definitive policies on the complete or partial eligibility of alternative delivery method courses, including online courses, for state funding. In addition, the Commission needs to clearly and consistently communicate these policies to all state-supported institutions before the next funding cycle.

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## **Recommendation No. 2:**

The Colorado Commission on Higher Education should review and revise its policies to ensure that current practices for state funding of alternative delivery courses remain in effect and ensure that these policies are clearly and consistently communicated to all state-supported institutions.

### **Colorado Commission on Higher Education Response:**

Partially agree. It is the general belief of the Commission that courses delivered through alternative methods, including those delivered “on-line” through the Internet, under certain conditions, should be eligible for state funding. However, the Commission believes that decisions regarding funding within higher education are not within the scope of the performance audit of Full-time Equivalent Students at Metropolitan State College. The Commission does not agree that any findings from the audit logically lead to the conclusion that state funding of alternatively delivered courses should be ensured. The Commission agrees that development of a policy in which the funding of on-line and other types of alternatively delivered instruction is clearly stated is needed and agrees to the development of that policy.

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## **The Commission Should Identify the Cost of Alternative Course Delivery**

State-supported institutions, including Metro, submit eligible resident student FTE to the Commission for state funding. According to Commission staff, the purpose of the State's reimbursement of resident FTE is to cover a portion of the institution's costs of educating resident students. Further, the Commission's *Policies and Procedures for the Statewide Extended Campus* state that tuition for credit courses "shall be set at levels which ensure that at least full instruction and administrative costs associated with the courses are recovered."

As we noted, the number of courses offered through alternative delivery methods continues to increase. Costs to create and deliver these courses may differ from the

costs associated with providing a course in a typical classroom setting. For example, Commission staff indicated that the up-front costs of an online course are significant while the long-term costs may be less than a course taught in a classroom. However, the Commission currently provides the same level of reimbursement for all eligible courses regardless of the actual cost of providing the course. Neither the Commission nor the individual institutions have identified the actual costs incurred by offering courses in a classroom versus an alternative delivery method. There is a possibility that the costs for different courses vary significantly. As a result, we believe the State's reimbursement level may need to be adjusted accordingly. Therefore, we believe the Commission could benefit from a cost study of all factors and expenses associated with both lecture courses and courses offered through alternative delivery methods.

The Commission has begun to explore possibilities for attaining economies of scale. For example, Commission representatives discussed the idea of consolidating all online courses through a single Internet provider to obtain a reduced per class cost. If the Commission develops this idea for achieving costs savings, it must also take the responsibility for detailing this new policy and communicating it to the state colleges and institutions.

As mentioned previously, quality indicator standards for higher education institutions include growth in the use of technology and technology components. These indicator standards encourage the use of technology and online courses. Metropolitan State College has responded to these standards by increasing the number of online courses it offers. However, Metro staff state that the start-up costs associated with online courses are significant.

During our audit we noted that Metro and other state-supported institutions have increased their use of courses offered through alternative delivery methods. These courses offer greater flexibility to students and increase access to higher education. Although Commission policies for extended campus courses require that tuition rates are set at levels to allow cost recovery, we determined that the Commission does not track the costs associated with specific courses. We believe that the Commission should work with institutions to develop estimates of these costs and ensure that state reimbursements parallel the cost of courses offered.

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### **Recommendation No. 3:**

The Colorado Commission on Higher Education should oversee a cost analysis to detail the costs associated with providing courses through each alternative delivery method as well as traditional lecture courses. This analysis should identify all indirect and direct costs incurred by offering the course including start-up costs and costs over

an extended period. On the basis of the results of this cost study, the Commission should consider altering the reimbursement rate for all courses based on the actual costs of offering the course.

### **Colorado Commission on Higher Education Response:**

Agree, although costs and resource availability are a concern.

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## **Additional Assurance Regarding Residency Is Recommended**

The difference between in-state tuition and out-of-state tuition at Colorado's state-supported institutions and colleges is considerable. For example, for 15 credit hours at Metropolitan State College of Denver for the Fall 1999 semester, resident students paid in-state tuition totaling \$936 while out-of-state tuition totaled \$3,787. Commission policies state that only credit hours generated by students who are classified as in-state for tuition purposes may be reported for Colorado resident enrollment. Therefore, institutions only receive state funding for credit hours generated by in-state resident students.

Section 23-7-101, C.R.S., defines an in-state student as a student who has been domiciled in Colorado for one year or more immediately preceding registration at any institution of higher education. The statute also lists several items that may be considered criteria for establishing in-state residency, such as graduation from a Colorado high school or voter registration. Statutes provide the Commission an opportunity to use "any other factor peculiar to the individual which tends to establish the necessary intent to make Colorado a permanent home." State statutes also give the Commission the authority to establish policies for determining tuition residency status. Additionally, Commission policies state that it is the responsibility of each institution to make in-state residency determinations based on the information provided by the individual.

As part of our audit we reviewed 25 student files to determine what evidence of residency Metro requires from students applying for in-state classification. We found that, at a minimum, each of the 25 files contained the college application form. The application requests certain self-reported information, which may indicate residency; however, admission staff stated that they do not independently verify the information on a completed application. Our file review indicated that 16 files (64 percent)

contained some documentation supporting the information detailed in the college application form. However, the remaining 9 files (36 percent) did not include any applicable evidence of in-state residency beyond the self-reported information on the application.

Regardless of their eligibility, Metro students have an incentive to request residency status because out-of-state tuition is four times as much as in-state tuition. Hence, the 36 percent of the sample that did not have to prove residency could have a significant impact on the amount of state funds provided to Metro. We also determined that institutions, including Metro, have no financial incentive to scrutinize evidence of residency. Institutions receive state funds based on the credit hours earned by in-state resident students. Therefore, students who are classified as in-state for tuition purposes contribute to the amount of general funds received by the institution. Commission staff reported that each year institutions receive base general funds representing the prior year's funding plus additional funds to cover inflation and growth of in-state enrollment. Out-of-state students provide cash funds to the institutions; however, these students do not contribute to the institution's base funding.

A student's classification as an in-state resident financially impacts both the student and the institution. In addition, statutes clearly identify that institutions may only receive state support for in-state students. Therefore, Metro should implement methods to abide by these criteria and independently verify the self-reported residency information provided on its application.

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### **Recommendation No. 4:**

The Metropolitan State College of Denver should:

- a. Develop written guidelines to determine eligibility for in-state residents.
- b. Require adequate evidence to ensure the eligibility of students classified as in-state residents.
- c. Conduct a representative sample of incoming freshmen to determine eligibility of in-state tuition recipients.

### **Metropolitan State College of Denver Response:**

Agree. The College will review its existing policies for ensuring the eligibility of students classified as in-state residents and develop additional written guidelines for these policies where necessary. It will also conduct a

representative sample of incoming freshmen to determine eligibility of in-state tuition recipients.

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## **Distribution**

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