

CollegeInvest Response to August 2009 State Audit

CollegeInvest is a nonprofit division under the Department of Higher Education, and receives no tax payer dollars. With over \$4 billion in assets under management and a staff of 32 (down from 37 for the period being audited), CollegeInvest provided more than \$1.7 billion in student loans for about 98,600 current borrowers and managed over \$2.8 billion in college savings for 276,800 families. In total, CollegeInvest served more than 450,000 people through these programs as well as outreach and educational activities in the past year alone.

The audit highlighted just a small portion of CollegeInvest's operations, and largely ignored many of the benefits it provides. For example, CollegeInvest's savings programs and the student loans directly further CollegeInvest's mission of helping Colorado families finance higher education costs. These programs allow CollegeInvest to offer scholarship and loan forgiveness programs that don't rely on state tax funds.

To put it in perspective, the scholarship program, a primary focus of the audit, represents only 1.2% of CollegeInvest's total assets under management and less than \$120,000 or 2% of CollegeInvest's total 2009 administrative expenses. These are tough times for Colorado families trying to pay for higher education and we work hard to give families the financial tools they need. CollegeInvest is always looking for ways to expand our impact.

The state audit did offer some helpful recommendations that CollegeInvest will take constructively as part of its continual efforts to operate as efficiently and effectively as possible. CollegeInvest welcomes the opportunity to keep the Legislative Audit Committee apprised of its progress in responding to these recommendations.

Regarding financial controls:

For background, CollegeInvest is required to have annual financial audits for all of its programs performed by Independent Certified Accountants who are held to strict audit standards. The independent audit reviewing the same period of the state audit identified no control weaknesses in expenditures or allocations, and they have consistently found that the financial statements are free of any material error.

529 Accounts & Student Loans

The state audit did not raise any concerns about the quality, stability, or management of CollegeInvest's 529 savings programs or CollegeInvest's student loans.

Gifts

The audit report is inaccurate. The golf clubs were not given to each financial advisor as gifts, as the audit states. Rather, a total of 10 clubs were awarded through a random drawing as part of a promotional contest to encourage over 6,000 advisors to sign-up for an email newsletter – with the goal of saving the organization significant printing and mailing costs.

Nonprofit donations

No donations were given to any organization. All nonprofit organizations which received funds were in direct connection with a marketing sponsorship with CollegeInvest. Each organization was specifically identified because of its similar focus on education, audience demographics, and ability to provide CollegeInvest grassroots opportunities to reach and inform families about college savings plans and the importance of saving for college.

Administrative Expenses

Only \$360k was allocated to the scholarship and loan forgiveness programs – 2.9% of the \$12 million. ***The Denver Post reporting was inaccurate and a retraction was printed on October 9.***

The administrative expenses of \$12 million relates to all CollegeInvest administrative expenses for the two year audit period for all of our programs, including a significant amount of non-administrative expenses such as loan origination fees paid to the US Dept of Education.

Regarding the Early Achievers Scholarship (“Scholarship”):

The trust fund that provided the dollars for the CEAS program was a student loan trust. The capital for this trust fund came from issuing student loan bonds, and NOT from private capital (529 accounts.)

The audit identified a number of issues concerning the Scholarship. The more significant issues noted included:

- Only \$91k in scholarships were awarded well below the feasibility model of 1.25% of the scholarship value in the first year (or \$942k), escalating to **5% in the fifth year** of awards.
- As a result of the program structure it is difficult to administer and overly burdensome
- In the first **four years** of operation the trust spent \$895k in expenses and has only awarded \$91,000 in scholarships in the first year (a 10 to 1 ratio)

Participation in the scholarship program did not meet our goals and we have instituted a number of constructive steps to improve participation.

- First, after working with College Financial Aid offices throughout the state, we eliminated the requirement for our scholarship funds to only fund unmet need after all other forms of financial aid.
- In addition to mailing to the 1,800 potential participants for this upcoming year, our call center has called each applicant with a valid phone number to remind them of the program.
- We have partnered with other pre-collegiate organizations such as Denver Scholarship Foundation to get updated contact information for participants and ensure that they are submitting information on where they will be going to college.
- Finally we have met with all of the college financial aid offices to remind them of the program and explain the changes we have made over the past year.

To date we have seen a fivefold increase in participants for the upcoming school year.

The program is difficult to administer and burdensome. However, its primary goals are to address: 1) preparation: reach students in 7th, 8th and 9th grades and educate them on the importance of college, and 2) affordability: provide some promise of financial help when they do reach college. As a result, we require students to enroll in 7th, 8th and 9th grades. The population of students we are targeting, lower income families, are difficult to track which makes it hard to identify if they have graduated from High School and if and where they are going onto college.

With over 24,000 students signed up for the scholarship, we believe it is our obligation to fulfill our commitment to these students who do pursue a college education. With only one year of operations it is too early to make wholesale changes to the program.

The four years of Scholarship startup expenses include the costs of setting up systems, creating and printing forms and brochures, and staff support to collect over 24,000 applications to date. The annual operating costs are currently under \$120,000. As participation in the program increases, we project expenditures of no more than 6% of scholarships paid per year, well below industry standards.

Service and Opportunity Scholarships

All of the scholarships were awarded to entrants; however many of the recipients failed to provide the necessary information to receive the money. This became even a larger issue starting in 2007 when students also had to demonstrate financial need. Even when a backup pool of award winners was selected we were not able to qualify sufficient students to pay out 100% of the funds.