



Susan Montee, JD, CPA  
Missouri State Auditor

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# DEPARTMENT OF HIGHER EDUCATION

## Higher Education Governance Structure and Coordination

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## YELLOW SHEET

### Findings in the audit of Higher Education Governance Structure and Coordination

Governance structure and performance measures	<p>The ability of the Coordinating Board for Higher Education (CBHE) to effectively coordinate higher education funding and academic programs could be improved. Our audit identified no correlation between the governance structure utilized by states to facilitate higher education decisions to education-related outcomes. However, no national data was available to evaluate the impact of governance structure on financial efficiency measures and the Missouri Department of Higher Education (MDHE) performance measurement efforts have not included any system or institutional goals or measures.</p>
Funding coordination	<p>The appropriation process for 4-year institutions is not adequately coordinated on a statewide basis. As opposed to the budget for the community colleges, which is appropriated as one and distributed in a coordinated effort by the community colleges and the CBHE, each 4-year institution's budget is appropriated separately by the General Assembly. This process allows legislators to advocate for individual institutions in their districts and allows political influence to impact funding allocation decisions. This has resulted in inefficiencies, such as individual institutions hiring lobby firms for their respective institutions at the expense of other 4-year institutions.</p>
Funding coordination efforts	<p>Recommendations to improve funding coordination efforts have not been implemented. In 2008, the CBHE accepted and approved the <i>Higher Education Funding Task Force Report</i> which made recommendations to improve the higher education funding methodology. According to a MDHE official, the methodology agreed upon by the task force has not been fully implemented because funding has been limited and because the legislature has not provided a separate appropriation for performance funding. The role of the CBHE is to coordinate higher education in the state; however, when the appropriation process encourages an uncoordinated and potentially political funding process, the ability of the CBHE to ensure funding is allocated in the most strategic and efficient manner possible is circumvented.</p>
Degree program offerings	<p>The CBHE has no authority to require degree program changes or eliminate programs. State law grants the CBHE the authority only to approve new degree programs at public institutions; the CBHE cannot enforce recommendations to change or eliminate programs. In addition, MDHE staff did not adequately verify the degree programs offered by Missouri's public higher education institutions had been approved by the CBHE. We identified two institutions that had each created and offered a new program without informing the MDHE or obtaining approval from the CBHE.</p>

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**SUSAN MONTEE, JD, CPA**  
**Missouri State Auditor**

To the Honorable Jeremiah W. (Jay) Nixon, Governor  
and  
Members of the General Assembly  
and  
Missouri Coordinating Board for Higher Education  
and  
David R. Russell, Ph.D., Interim Commissioner  
Missouri Department of Higher Education  
Jefferson City, Missouri

Because of the importance of higher education, we audited the governance structure and coordination of public higher education in Missouri. The Missouri Department of Higher Education, through the Coordinating Board of Higher Education (CBHE), is responsible for coordinating the various aspects of higher education in the state. The objectives of our audit were to:

1. Evaluate the effectiveness of the state's higher education governance structure.
2. Evaluate the effectiveness of coordination efforts by the CBHE.

Our audit concluded Missouri's use of a coordinating board to govern higher education is consistent with a majority of states; however, our review noted no correlation between a specific governance model and increased higher education system performance. The audit also found: (1) coordination efforts of higher education funding and academic programs could be improved, (2) higher education funding to public 4-year institutions is not sufficiently coordinated, and (3) the CBHE does not have the authority to adequately coordinate academic programs offered at the institutions and has not ensured programs offered have been approved.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a

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



Susan Montee, JD, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	John Luetkemeyer, CPA
Audit Manager:	Robert Showers, CPA
In-Charge Auditor:	Lori Melton, M. Acct, CPA
Audit Staff:	Robert Graham

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# Higher Education Governance Structure and Coordination

## Introduction

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### Background

The Missouri Department of Higher Education (MDHE), headed by the Coordinating Board for Higher Education (CBHE), carries out the goals and administrative responsibilities for the state system of public higher education.<sup>1</sup> State law established the public higher education institutions and the General Assembly appropriates state funding.

The MDHE has responsibility for recommending to the governing board of any public higher education institution in the state the development, consolidation or elimination of programs, degree offerings, physical facilities or policy changes where that action is deemed by the coordinating board in the best interests of the institutions and/or the general requirements of the state.<sup>2</sup> The MDHE has authority to collect information and data from the institutions for any purpose deemed appropriate including information on the approximately 1,970 academic programs listed in the state's official program inventory for public 2- and 4-year institutions.<sup>3</sup>

Dr. Robert Stein served as Commissioner of Higher Education from December 2006 to June 2010, and was replaced by David R. Russell, Ph.D, on an interim basis starting July 2010.

### Governance structure

Nationwide, the majority of states govern higher education using one of two types of boards: governing or coordinating. According to our review of higher education literature, governing boards generally have more authority over daily activities at the institutions than coordinating boards, and generally have direct management of the public post-secondary institutions in the state. Coordinating boards vary significantly, but are generally less centralized than governing boards. Coordinating boards typically engage in system-wide planning, make budget recommendations, and approve new programs at the institutions, among other activities. States with coordinating boards have established local governing boards for the higher education institutions. According to the president of a national association of higher education, states with a large sector of private institutions, such as Missouri, tend to give less emphasis to statewide planning and policy than states with smaller private sectors. There are 28 states, including Missouri, with coordinating boards, 19 states with governing boards, and 3 states that have no statewide governance body according to the Education Commission of the States. According to research from Clemson University,<sup>4</sup> the type of board that is successful for a given state is largely dependent on the political

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<sup>1</sup> Missouri's system of higher education includes 34 public institutions (13 four-year universities, 20 two-year colleges, and 1 state technical college). In addition, there are numerous private not-for-profit and for-profit institutions.

<sup>2</sup> Section 173.030(2), RSMo

<sup>3</sup> 6 CSR 10-4.021

<sup>4</sup> Alliance for Research on Higher Education, The Strom Thurmond Institute of Government & Public Affairs, Clemson University (2006). *A Closer Look: State Governance Models*.



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culture of the given state, including the Governor's or General Assembly's authority or the role of private institutions in state politics.

### Missouri funding

In fiscal year (FY) 2001, funding for higher education by the State of Missouri totaled approximately \$984 million. Funding for higher education dropped to \$783 million in FY 2004 and increased to \$902 million in FY 2009. State funding was decreased for FY 2011 to \$891 million in FY 2010 and appropriations declined to \$869 million, a 2.5 percent decrease. This funding is to meet the goals and administrative responsibilities for the state's public higher education system, and is primarily provided to the public institutions across the state.

From FY 1994 to FY 2002, the General Assembly appropriated 'performance funding' in addition to the core budget appropriations. Performance funding was intended to reward institutions for improvement as measured against past performance, or for maintenance of a high degree of performance, relative to external benchmarks. Performance funding was eliminated in FY 2002 due to statewide budget cuts. Although an increased funding request was not included in the FY 2011 budget request, the CBHE submitted an alternative budget, requesting performance funding of \$500,000, if funds become available. MDHE officials are anticipating additional cuts in funding for FY 2012, and potentially beyond.

The following table shows state aid to the MDHE for higher education coordination and to public higher education institutions for operating expenditures<sup>5</sup> for the 10 years ended June 30, 2010. The appropriation amounts include federal stimulus funds in the applicable years and are net of any withholdings.

Year Ended June 30,	MDHE	Institutions	Total	Percent Change
2001	\$ 2,044,000	982,189,000	984,233,000	
2002	1,506,411	837,804,274	839,310,685	(14.7%)
2003	1,355,717	786,464,059	787,819,776	(6.1%)
2004	1,306,000	781,538,632	782,844,632	(0.6%)
2005	1,268,826	801,469,660	802,738,486	2.5%
2006	939,728	798,253,773	799,193,501	(0.4%)
2007	793,520	818,719,266	819,512,786	2.5%
2008	812,022	860,208,461	861,020,483	5.1%
2009	1,084,213	901,081,094	902,165,307	4.8%
2010 <sup>1</sup>	796,991	889,915,717	890,712,708	(1.3%)

<sup>1</sup> The year ended June 30, 2010 includes federal stimulus monies of \$142,141,608.

<sup>5</sup> Does not include funding for scholarships, grants, or capital improvements.



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### Appropriation process

The budget process for higher education institutions typically begins 2 years prior to the budget year. The appropriation process starts with the institutions modifying their budget requests based on guidelines suggested by the CBHE and/or the Governor. The institutions' budget requests are submitted to the CBHE. The CBHE then makes changes deemed necessary, approves a unified budget request for all institutions, and submits the proposed budget to the Office of Administration and the Governor. Each 4-year institution and Linn State Technical College are presented as individual line items in the unified proposal, while the budgets for the community colleges are combined into one line item. The Governor considers the CBHE request before submitting the statewide budget proposal to the General Assembly. The General Assembly debates the budget and may also make changes. Various individuals may testify regarding the budgets, such as MDHE staff, institution staff, or lobbyists.

### Strategic plan

The MDHE is currently operating under a strategic plan approved by the CBHE in 2008. This plan, titled *Imperatives for Change*, was developed in conjunction with representatives from higher education institutions to serve as a foundation for prioritizing goals and implementing dynamic strategies to provide Missouri residents with the educational opportunities they need to be competitive on a global scale. The plan addresses three strategic issues: increase educational attainment; develop a twenty-first century society and global economy; and enhance resources through increased investment, stewardship, and shared responsibility. Baseline measurements have been established for plan goals, but targets for these measurements were being developed during audit fieldwork. Representatives from higher education institutions were supportive of the plan, including the process to create the plan and target goals.

In August 2007, we reported<sup>6</sup> mission reviews required by state law had not been performed because necessary funding was not available. Without mission reviews, the CBHE cannot ensure that Missouri's higher education system is responsive to state needs or established strategic goals. State law requires a review every 5 years of the mission statements of the institutions comprising Missouri's system of public higher education.<sup>7</sup> The last mission reviews were completed in 2002. According to MDHE personnel, mission reviews were resumed in late 2008, completed in December 2009, and were in the process of being presented to the institutions at fieldwork completion.

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## Scope and Methodology

To evaluate the effectiveness of the state's higher education governance structure, we analyzed higher education performance data for Missouri and a group of peer states, with both coordinating boards and governing boards,

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<sup>6</sup> *Non Resident Tuition* (SAO Report No. 2007-31, August 2007)

<sup>7</sup> Section 173.030(7), RSMo



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to determine if we could identify any links between type of governance structure and performance.

To evaluate the coordination efforts of the CBHE we reviewed minutes of meetings, written policies and procedures, financial records, and other pertinent documents. We also interviewed various personnel of the MDHE, as well as representatives of the state's public 4-year, community college and technical institutions, and national higher education officials. Comparative financial data and educational statistics obtained from external and internal sources were analyzed and statutes and policies of selected states were reviewed.

During our review of degree program offerings, we obtained a data file from the MDHE website of all programs approved by the CBHE for public institutions as of June 2009 and another data file of enrollment information reported to the MDHE by the institutions for fall 2008. We matched these two sets of data to determine if there was enrollment in any programs that had not been approved by the CBHE. We provided the Commissioner with a list of programs identified.

Our audit focused on the governance structure and coordination of higher education. We did not perform procedures to determine potential programs that have been duplicated at multiple institutions or programs that would be inconsistent with an institution's mission.

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## Higher Education Coordination

The ability of the Coordinating Board for Higher Education (CBHE) to effectively coordinate higher education funding and academic programs could be improved. Performance measurement efforts have not included system or institutional goals or measures to track financial efficiency. The current funding process for higher education is not adequately coordinated and does not allow the CBHE to allocate funding in the most strategic and effective manner possible. In addition, the CBHE does not have the authority to change or eliminate programs and has not ensured institutions are obtaining approval for degree programs offered.

## Governance structure and performance measures

Our audit identified no correlation between the governance structure utilized by states to facilitate higher education decisions to education-related outcomes. However, no national data was available to evaluate the impact of governance structure on financial efficiency measures. In addition, the Missouri Department of Higher Education (MDHE) performance measurement efforts have not included any financial efficiency goals or measures.

To evaluate the impact on governance structure on system performance we identified, in conjunction with MDHE staff, eight peer state higher education systems with similar characteristics to Missouri's system. We selected peer states with both coordinating board structures as well as governing board structures and evaluated available performance data, such as enrollment rates, graduation rates, and funding. Although national efficiency data was not available for comparison, Missouri could benefit by establishing and monitoring financial efficiency goals and measures. For example, measures such as dollars expended per graduate, or administrative dollars expended per graduate, would help monitor trends in how higher education dollars are spent. Establishing and tracking financial efficiency data increases the visibility of such data and makes the institutions and the higher education system as a whole more accountable.

## Funding coordination

The appropriation process for 4-year institutions is not adequately coordinated on a statewide basis. As opposed to the budget for the community colleges, which is appropriated as one and distributed in a coordinated effort by the community colleges and the CBHE, the current budget process for the 4-year institutions is disjointed. The CBHE's ability to coordinate funding for the 4-year institutions is diminished as a result of each 4-year institution's budget being appropriated separately by the General Assembly. In addition, the current process allows legislators to advocate for individual institutions in their districts and allows political influence to impact funding allocation decisions. This has resulted in inefficiencies, such as individual institutions hiring lobby firms for their respective institutions at the expense of other 4-year institutions.



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We contacted the University of Missouri system, Northwest Missouri State University, and Missouri State University to determine their annual expenses for lobbying state officials. The University of Missouri system incurred approximately \$920,000 and Missouri State University incurred approximately \$196,000 in lobbying expenses for the 2 years ended June 30, 2009. Northwest Missouri State University's lobbying costs, approximately \$140,000 for the same timeframe, were incurred by the university's foundation and not directly by the university. Officials from community colleges and the 4-year institutions said lobbyists are necessary to ensure funding in the current political and economic climate. According to discussions with institution officials, the lobbyists provide additional access to state officials and committees.

**Funding coordination efforts** Recommendations to improve funding coordination efforts have not been implemented. In 2008, the CBHE accepted and approved the *Higher Education Funding Task Force Report* which made recommendations to improve the higher education funding methodology. The task force was made up of 30 representatives of various community colleges and 4-year institutions, the state technical college, the MDHE, and a representative of the Governor's office. The funding methodology endorsed by the task force divided higher education funding for all institutions into three segments, and recommended each of the three parts be funded annually. The majority of funding would be considered core funding, with smaller portions going towards strategic initiative funding and performance funding. The use of performance funding has also been endorsed by higher education officials in other states because it provides more incentive to continually improve performance.

According to the task force report, Missouri's public colleges and universities are currently funded using an incremental process, in which funding for the upcoming year is typically the same as last year plus or minus an incremental amount. The report states the incremental approach can provide continuity, but is not responsive to enrollment growth, does not provide incentives for high performance, and does not allow the flexibility to "adjust to new opportunities and challenges." The proposed funding methodology was intended to address these issues beginning with the passage of the 2010 budget. However, according to a MDHE official, the methodology agreed upon by the task force has not been fully implemented because funding has been limited and because the legislature has not provided a separate appropriation for performance funding.

The role of the CBHE is to coordinate higher education in the state; however, when the appropriation process encourages an uncoordinated and potentially political funding process, the ability of the CBHE to ensure funding is allocated in the most strategic and efficient manner possible is circumvented.



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CBHE authority over  
existing degree programs

The CBHE has no authority to require degree program changes or elimination of a program. State law grants the CBHE the authority only to approve new degree programs at public institutions.<sup>8</sup> The CBHE also has the authority to review a program or obtain information from institutions regarding a program; however, decisions made as a result of the reviews are not binding. Therefore, if a program is found to be poorly serving the student population or a duplicate of another program at a nearby institution, the CBHE cannot enforce recommendations to change or eliminate the program. Of other states reviewed, 14 of 27 state boards have the authority to require an institution to discontinue a degree program.

Without the authority to enforce recommendations to change or eliminate a degree program, the CBHE cannot effectively coordinate the state's higher education programs, resulting in less assurance the most effective and appropriate programs are available at Missouri's higher education institutions. According to an MDHE official, in states that have coordinating boards with program deletion authority, the state board is taken more seriously by institutions, especially in the program approval process, regardless of how many approved programs are actually deleted.

Degree program offerings

MDHE staff did not adequately verify the degree programs offered by Missouri's public higher education institutions had been approved by the CBHE. MDHE staff periodically send lists of the state's official program inventory to institutions to allow institutions to verify their accuracy. In a comparison of the institutions' enrollment information to a list of approved programs, we identified the following inconsistencies:

- Two institutions had each created and offered a new program without informing the MDHE or obtaining approval from the CBHE.
- Institutions had changed the reporting code<sup>9</sup> of 56 approved programs without informing the MDHE. As new codes are added or descriptions clarified, an institution may find a more appropriate code for the approved program. While such changes are allowed, the Commissioner said the institutions should notify the MDHE that a change has been made.

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<sup>8</sup> Section 173.005, RSMo

<sup>9</sup> The federal Department of Education established uniform Classification of Instructional Programs codes to provide a scheme to support the accurate tracking, assessment, and reporting of fields of study and program completions activity.



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- Enrollment for 44 programs were reported under an inaccurate code or reported under the code for the options<sup>10</sup> instead of the parent program.

According to former Commissioner Stein, the MDHE uses multiple methods to verify the programs offered by the institutions have been approved and the MDHE investigates reports of institutions advertising programs that have not been approved. Periodically comparing a list of programs offered to a list of approved programs would be a more effective means of verifying programs offered have been approved by the CBHE.

## Conclusions

There does not appear to be a correlation between the state's governance structure for higher education and education-related outcomes of the higher education system. However, the impact of the governance structure on the higher education system's financial efficiency could not be determined. The tracking of financial efficiency measures as part of the departmental performance measurement efforts would provide increased accountability and promote improvements in efficiency.

The current funding process reduces the ability of the CBHE to effectively coordinate and allocate higher education resources by allowing political factors to influence funding decisions. Allowing the CBHE a greater voice in making resource allocation decisions would help ensure the most efficient and effective use of higher education resources. In addition, the efficiency of the higher education system could be improved by giving the CBHE the power to enforce changes or elimination of existing degree programs at higher education institutions that are redundant or not within an institution's mission.

## Recommendations

The MDHE:

- 1.1 Develop and track performance measures of institutional and system financial efficiency as part of the existing performance measurement process.
- 1.2 Work with the Governor, General Assembly and institutions to fully implement the recommendations of the *Higher Education Funding Task Force Report* and continue to advocate for a coordinated budget request for all institutions.

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<sup>10</sup> A program option is a specialization that an institution offers under a parent or umbrella program. The requirement of the program option must meet the requirements approved by the CBHE for the parent program.



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- 1.3 Pursue legislative changes granting the CBHE the authority to enforce changes to or elimination of existing degree programs at higher education institutions.
- 1.4 Take steps to ensure degree programs offered by higher education institutions have been approved by the CBHE.

## Auditee's Response

- 1.1 *The MDHE agrees to expand its current body of efficiency measures, e.g., overall graduation and transfer graduation rates, by developing and regularly reporting additional efficiency measures that measure financial efficiency more directly as recommended.*
- 1.2 *The MDHE agrees to continue its work with the Governor, the General Assembly and institutions for full implementation of the recommendations in the Higher Education Funding (HEF) Task Force Report. With regard to a coordinated budget for all institutions, the MDHE will work for more effectiveness in coordination but does not agree with the conclusion that because there are different appropriation methodologies used by the legislature for community colleges compared to 4-year institutions there is some difference in levels of MDHE-driven coordination between those two sectors. The higher education budget prepared by MDHE and approved by CBHE is coordinated around the policy framework produced by the HEF Task Force and adopted by the CBHE. However it is the responsibility of the legislature, not an executive branch department such as MDHE, to appropriate and allocate funds for the operation of Missouri higher education institutions. While the MDHE submits budget recommendations and works to influence budget decisions, in Missouri it is the legislature that has sole authority to determine the level of funding for each institution. When the budget is final and signed into law, the amount for each institution is set, regardless of whether appropriations are made collectively or individually. It is then the role of the MDHE to simply administer those appropriations as approved.*
- 1.3 *Several Coordinating Board states have authority to enforce changes to or delete existing degree programs at higher education institutions. In Missouri, the Coordinating Board already has the responsibility to recommend to the governing boards of higher education institutions the consolidation or elimination of programs and degree offerings "when deemed in the best interests of the institutions or the state." See § 173.030(2) RSMo. Adding some level of enforcement power to this authority, even if seldom used, would, as demonstrated in other states, increase the effectiveness of the department in this area and could be especially appropriate in times of limited state resources. However, such additional authority*



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*should also provide for appropriate opportunities for institutions to be heard in response to a proposal to delete or consolidate existing programs or degrees, and they should be given an opportunity to appeal such decisions before they are final.*

- 1.4 *In the future, the MDHE staff will use multiple methods to verify that the programs offered by the institutions have been approved.*