



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

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– Article IV, Section 53 of the Michigan Constitution

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Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit*  
*Office of Scholarships and Grants*  
*Student Financial Services Bureau*  
*Department of Treasury*

Report Number:  
 271-0310-09

Released:  
 May 2010

*The Student Financial Services Bureau's (SFSB's) mission is to excel in assisting citizens to pursue postsecondary education by providing equality of access to student financial resources and information. SFSB consists of four divisions, one of which is the Office of Scholarships and Grants (OSG). As of June 30, 2009, OSG had 23 full-time equated employees involved in administering its scholarship and grant programs.*

***Audit Objective:***

To assess the effectiveness of OSG's efforts to evaluate its State-funded scholarship and grant programs.

***Audit Conclusion:***

We concluded that OSG's efforts were moderately effective in evaluating its State-funded scholarship and grant programs. We noted one reportable condition (Finding 1).

***Reportable Condition:***

The Department of Treasury did not identify desired State-funded scholarship and grant program performance-related goals and student outcomes. In addition, the Department did not collect student outcome-related data or evaluate the outcome-related effectiveness of its State-funded scholarship and grant financial aid programs (Finding 1).

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***Agency Response:***

Our audit report contains 1 finding and 2 corresponding recommendations. The Department of Treasury's preliminary response indicates that it agrees conceptually with both recommendations provided that such authority is assigned and the necessary data becomes available.

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May 11, 2010

Mr. Robert J. Kleine  
State Treasurer  
Richard H. Austin Building  
Lansing, Michigan

Dear Mr. Kleine:

This is our report on the performance audit of the Office of Scholarships and Grants, Student Financial Services Bureau, Department of Treasury.

This report contains our report summary; description of agency; audit objective, scope, and methodology and agency responses and prior audit follow-up; comment, finding, recommendations, and agency preliminary response; and a glossary of acronyms and terms.

The agency preliminary response was taken from the agency's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL



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STUDENT FINANCIAL SERVICES BUREAU  
DEPARTMENT OF TREASURY**

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## Description of Agency

The Student Financial Services Bureau (SFSB) consists of four divisions: the Office of Scholarships and Grants (OSG), the Michigan Higher Education Student Loan Authority/Fiscal Affairs, the Michigan Guaranty Agency, and the Michigan Education Trust/Michigan Education Savings Plan.

SFSB's mission\* is to excel in assisting citizens to pursue postsecondary education by providing equality of access to student financial resources and information.

SFSB administers 33 State and federal student financial assistance programs, most of which fall under the purview of the Boards of the Michigan Higher Education Assistance Authority, the Michigan Higher Education Student Loan Authority, and the Michigan Education Trust. The Michigan Legislature created these Boards as separate and distinct entities. SFSB coordinates the planning, organizing, and execution of all programs.

\* See glossary at end of report for definition.

OSG administers scholarship and grant programs that allow Michigan students access and choice in achieving their education goals. The following table presents the number of program recipients and related financial data for OSG's programs:

**Fiscal Year 2007-08**

| Program  | Number of Recipients | Funding Sources              |                               |                        |                       | Available Funding     | Expenditures          |
|--|----------------------|------------------------------|-------------------------------|------------------------|-----------------------|-----------------------|-----------------------|
|  |                      | General Fund General Purpose | General Fund State Restricted | Merit Award Trust Fund | General Fund Federal  |                       |                       |
| Michigan Tuition Grant                           | 35,518               | \$                           | \$ 1,400,000                  | \$ 415,000             | \$ 55,268,100 (1)     | \$ 57,083,100         | \$ 57,076,195         |
| Michigan Merit Award                             | 41,103               |                              |                               | 52,300,000             |                       | 52,300,000            | 48,534,832            |
| Michigan Promise Scholarship                     | 37,895               |                              |                               | 39,905,000             |                       | 39,905,000            | 37,970,742            |
| Michigan Competitive Scholarship                 | 27,885               |                              | 1,200,000                     |                        | 31,872,128 (1)        | 33,072,128            | 33,072,128            |
| Tuition Incentive Program                        | 11,701               |                              |                               | 569,000                | 21,100,000 (1)        | 21,669,000            | 21,637,039            |
| Michigan Work-Study - Undergraduate and Graduate | 5,130                | 7,326,300                    |                               |                        |                       | 7,326,300             | 6,976,235             |
| Michigan Nursing Scholarship                     | 1,595                |                              |                               | 4,250,000              |                       | 4,250,000             | 4,250,000             |
| Adult Part-Time Grant                            | 6,008                | 2,653,300                    |                               |                        |                       | 2,653,300             | 2,647,981             |
| Michigan Educational Opportunity Grant           | 4,503                | 2,084,200                    |                               |                        |                       | 2,084,200             | 2,083,921             |
| Robert C. Byrd Honors Scholarship                | 974                  |                              |                               |                        | 1,399,500             | 1,399,500             | 1,399,500             |
| Children of Veterans Tuition Grant               | 400                  |                              | 252,895                       | 611,000                |                       | 863,895               | 860,722               |
| Gear Up Michigan Scholarship                     | 36                   |                              |                               |                        |                       | 147,618               | 147,618               |
| <b>Total</b>                                     | <b>172,748</b>       | <b>\$ 12,063,800</b>         | <b>\$ 2,852,895</b>           | <b>\$ 98,050,000</b>   | <b>\$ 109,787,346</b> | <b>\$ 222,754,041</b> | <b>\$ 216,656,912</b> |

**Fiscal Year 2008-09**

| Program  | Number of Recipients | Funding Sources              |                               |                        |                       | Available Funding     | Expenditures          |
|--|----------------------|------------------------------|-------------------------------|------------------------|-----------------------|-----------------------|-----------------------|
|  |                      | General Fund General Purpose | General Fund State Restricted | Merit Award Trust Fund | General Fund Federal  |                       |                       |
| Michigan Tuition Grant                           | 35,660               | \$                           | \$                            | \$ 3,100,000           | \$ 56,661,734 (1)     | \$ 59,761,734         | \$ 58,887,975         |
| Michigan Merit Award                             | 3,815                |                              |                               | 5,200,000              |                       | 5,200,000             | 2,005,501             |
| Michigan Promise Scholarship                     | 69,963               |                              |                               | 16,370,800             | 53,899,200 (1)        | 70,270,000            | 69,096,830            |
| Michigan Competitive Scholarship                 | 28,832               | 671,700                      |                               |                        | 34,418,956 (1)        | 35,090,656            | 34,418,956            |
| Tuition Incentive Program                        | 13,957               |                              |                               | 2,100,000              | 25,200,000 (1)        | 27,300,000            | 26,710,415            |
| Michigan Work-Study - Undergraduate and Graduate | 5,583                | 7,326,300                    |                               |                        |                       | 7,326,300             | 6,967,553             |
| Michigan Nursing Scholarship                     | 1,389                |                              |                               | 1,509,600              | 2,740,400 (1)         | 4,250,000             | 4,250,000             |
| Adult Part-Time Grant                            | 5,868                | 2,653,300                    |                               |                        |                       | 2,653,300             | 2,645,979             |
| Michigan Educational Opportunity Grant           | 4,435                | 2,084,200                    |                               |                        |                       | 2,084,200             | 2,084,057             |
| Robert C. Byrd Honors Scholarship                | 894                  |                              |                               |                        | 1,360,500             | 1,360,500             | 1,360,500             |
| Children of Veterans Tuition Grant               | 427                  | 700,000                      | 237,736                       | 30,000                 |                       | 967,736               | 948,397               |
| Gear Up Michigan Scholarship                     | 198                  |                              |                               |                        |                       | 935,409               | 935,409               |
| <b>Total</b>                                     | <b>171,021</b>       | <b>\$ 13,435,500</b>         | <b>\$ 237,736</b>             | <b>\$ 28,310,400</b>   | <b>\$ 175,216,199</b> | <b>\$ 217,199,835</b> | <b>\$ 210,311,573</b> |

**Fiscal Year 2009-10**

| Program  | Number of Recipients (2) | Appropriated Funding Sources |                               |                        |                      | Appropriated Funding | Expenditures (2) |
|--|--------------------------|------------------------------|-------------------------------|------------------------|----------------------|----------------------|------------------|
|  |                          | General Fund General Purpose | General Fund State Restricted | Merit Award Trust Fund | General Fund Federal |                      |                  |
| Michigan Tuition Grant                           |                          | \$ 31,664,700                | \$                            | \$                     | \$                   | \$ 31,664,700        |                  |
| Michigan Merit Award                             |                          |                              |                               | 100                    |                      | 100                  |                  |
| Michigan Promise Scholarship                     |                          |                              |                               |                        |                      | 0                    |                  |
| Michigan Competitive Scholarship                 |                          | 14,708,500                   |                               |                        | 1,292,364 (3)        | 16,000,864           |                  |
| Tuition Incentive Program                        |                          | 1,100,000                    |                               | 30,100,000             |                      | 31,200,000           |                  |
| Michigan Work-Study - Undergraduate and Graduate |                          |                              |                               |                        |                      | 0                    |                  |
| Michigan Nursing Scholarship                     |                          |                              |                               |                        |                      | 0                    |                  |
| Adult Part-Time Grant                            |                          |                              |                               |                        |                      | 0                    |                  |
| Michigan Educational Opportunity Grant           |                          |                              |                               |                        |                      | 0                    |                  |
| Robert C. Byrd Honors Scholarship                |                          |                              |                               |                        | 1,359,000 (3)        | 1,359,000            |                  |
| Children of Veterans Tuition Grant               |                          | 700,000                      | 300,000                       |                        |                      | 1,000,000            |                  |
| Gear Up Michigan Scholarship                     |                          |                              |                               |                        | 1,500,000            | 1,500,000            |                  |
| <b>Total</b>                                     |                          | <b>\$ 48,173,200</b>         | <b>\$ 300,000</b>             | <b>\$ 30,100,100</b>   | <b>\$ 4,151,364</b>  | <b>\$ 82,724,664</b> |                  |

(1) These scholarship and grant funds were provided by the Michigan Department of Human Services (DHS) as appropriated in Act 279, P.A. 2008, and Act 140, P.A. 2009. DHS determined that these scholarships and grants were eligible for the federal Temporary Assistance for Needy Families (TANF) program. In fiscal years 2007-08 and 2008-09, the transfer of TANF program funds occurred in September of each fiscal year. No such transfer has yet occurred for fiscal year 2009-10.

(2) Data not yet determinable.

(3) Data based on federal grant award amount.

Source: Michigan Administrative Information Network and Student Financial Services Bureau records.

As of June 30, 2009, OSG had 23 full-time equated\* employees involved in administering its scholarship and grant programs. During fiscal year 2007-08, OSG expended approximately \$2.45 million in administering its programs.

\* See glossary at end of report for definition.

## Audit Objective, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

### Audit Objective

The objective of our performance audit\* of the Office of Scholarships and Grants (OSG), Student Financial Services Bureau (SFSB), Department of Treasury, was to assess the effectiveness\* of OSG's efforts to evaluate its State-funded scholarship and grant programs.

### Audit Scope

Our audit scope was to examine the program records and processes of the Student Financial Services Bureau related to State-funded scholarships and grants. 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 finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective. Our audit procedures, conducted from April through August 2009, included the examination of OSG records and activities primarily for the period October 1, 2006 through June 30, 2009.

Although SFSB is also responsible for administering a variety of other federal and State student loan programs, these were not included in the scope of this audit.

### Audit Methodology

We conducted a preliminary review of SFSB and the administration of its various financial aid programs to gain an understanding of SFSB and to formulate a basis for developing our audit objective and defining our audit scope. Our review included interviewing SFSB staff; reviewing applicable legislation, manuals, processes, statistical reports, and appropriations acts; and following up the prior audit findings.

To accomplish our objective, we interviewed OSG staff, reviewed OSG's annual strategic plans, and researched methods used by other states to evaluate the effectiveness of their scholarship and grant financial assistance programs.

\* See glossary at end of report for definition.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

#### Agency Responses and Prior Audit Follow-Up

Our audit report contains 1 finding and 2 corresponding recommendations. The Department of Treasury's preliminary response indicates that it agrees conceptually with both recommendations provided that such authority is assigned and the necessary data becomes available.

The agency preliminary response that follows the recommendations in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require the Department of Treasury to develop a formal response to our audit finding and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Michigan Higher Education Assistance Authority and the Michigan Higher Education Student Loan Authority, Department of Treasury (27-310-97), in April 1998. Within the scope of this audit, we followed up 6 of the 10 prior audit recommendations. The Authorities complied with 5 of the prior audit recommendations, and 1 recommendation was rewritten for inclusion in this report.

COMMENT, FINDING, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSE

# EFFECTIVENESS OF EFFORTS TO EVALUATE STATE-FUNDED SCHOLARSHIP AND GRANT PROGRAMS

## COMMENT

**Audit Objective:** To assess the effectiveness of the Office of Scholarships and Grants' (OSG's) efforts to evaluate its State-funded scholarship and grant programs.

**Audit Conclusion:** We concluded that OSG's efforts were moderately effective in evaluating its State-funded scholarship and grant programs. Our assessment disclosed one reportable condition\* related to scholarship and grant program performance evaluation (Finding 1).

## FINDING

### 1. Scholarship and Grant Program Performance Evaluation

The Department of Treasury did not identify desired State-funded scholarship and grant program performance-related goals\* and student outcomes\*. In addition, the Department did not collect student outcome-related data or evaluate the outcome-related effectiveness of its State-funded scholarship and grant financial aid programs.

The Department was not statutorily required to collect student outcome-related data from postsecondary institutions from which to evaluate the outcome-related effectiveness of its programs. However, without identifying program goals and desired outcomes and evaluating student outcome-related data, policymakers have limited data from which to determine program effectiveness and allocate declining future program resources.

Program effectiveness can best be determined through a comprehensive performance evaluation process that considers both outputs\* and outcomes\* related to student scholarship and grant financial aid programs. A comprehensive evaluation process would help enhance the Legislature's ability to ensure the effective allocation of State-provided financial aid funds. Before such an evaluation process can be conducted, performance measures need to be identified based on program expectations.

\* See glossary at end of report for definition.

The Student Financial Services Bureau's mission is to provide students with access to financial aid. However, our research of other state financial aid program analyses demonstrates that states have moved from evaluating postsecondary access to evaluating postsecondary student outcomes. OSG's current focus on the output-related measure of getting students through the college door does not provide policymakers with valuable data on the outcome-related effectiveness of the aid in making a difference in the students' futures.

The National Center for Education Statistics, U.S. Department of Education, reported that during school year 2007-08, approximately 80% of full-time/full-year undergraduate postsecondary students received some type of financial aid (federal subsidized loans, private loans, college/university loans, and public and private scholarships and grants). National statistics reflect that approximately 30% of student financial aid comes from state-funded scholarships and grants. During fiscal year 2007-08, OSG distributed in excess of \$215 million through nearly 173,000 State-funded and federally funded scholarships and grants.

OSG had established annual strategic plans that identified administrative goals, and OSG annually reported output data such as the number of students receiving State-funded scholarships and grants. However, OSG informed us that, in the absence of a statutory requirement to do so, it had not identified or established quantifiable student outcome-related goals and performance indicators related to program expectations. Furthermore, OSG had not collected student outcome-related data from postsecondary institutions from which to assess the effectiveness of its student financial aid programs.

OSG has worked with the Center for Educational Performance and Information (CEPI), Office of the State Budget, for several years to develop a system to collect, maintain, and report education data received from preschool, K-12, and postsecondary institutions for the purpose of making informed policy decisions at the federal, State, local, and institutional levels. In 2008, CEPI received a \$5.5 million grant from the U.S. Department of Education to further the development of this system. The system is planned to include a unique tracking identifier for each student and data such as student-level enrollment, degree completion, student-level financial aid, persistence\*, and graduation data and is

\* See glossary at end of report for definition.

expected to be useful in evaluating current programs in order to create effective changes that will enhance student outcomes.

Several states, including New Jersey, Tennessee, and Texas, use accountability reports to document postsecondary institution progress toward strategic state educational goals. New Jersey benchmarks include graduation rates and articulation\* success. In addition, Tennessee and Texas have both tied state goals to regional initiatives, including:

- (1) The percentage of adults who have attended and earned a two-year, four-year, or graduate degree will be at the national average or higher.
- (2) The quality and effectiveness of colleges will be regularly assessed, emphasizing undergraduate persistence and satisfactory academic progress.
- (3) Teacher education programs will place primary emphasis on the knowledge and performance of graduates.
- (4) States will maintain or increase state tax dollars for schools and colleges while emphasizing funding aimed at quality.

When the state of West Virginia began tying student aid to academic progress, graduation rates rose. A growing number of other states are connecting graduation rates to performance funding\*. A 2002 study found that 18 states used graduation rates in performance funding, even if it was one of multiple indicators. In addition, more recently, Indiana, Ohio, and South Carolina have considered, or are considering, policies that link state higher education funding to graduation rates.

The Department's ability to evaluate the effectiveness of its scholarship and grant financial aid programs is important because of the increasingly limited availability of State-funded financial aid resources, the increasing need for financial aid, the large amount of taxpayer funds distributed, and the impact of financial aid on program participants. Desirable postsecondary student outcomes may include workforce preparation and retraining, communication and computational skills, cognitive and intellectual development, content learning, and economic benefits to both the

\* See glossary at end of report for definition.

student and State. The Department may consider specific quantifiable indicators of desirable student outcomes to include educational attainment, successful postsecondary persistence, degree completion, curriculum-related employment, and graduate retention in the State.

## **RECOMMENDATIONS**

We recommend that the Department identify desired State-funded scholarship and grant program performance-related goals and student outcomes.

We also recommend that the Department collect student outcome-related data and evaluate the outcome-related effectiveness of its State-funded scholarship and grant financial aid programs.

## **AGENCY PRELIMINARY RESPONSE**

The Department agrees with the finding and informed us that it agrees conceptually with both recommendations provided that such authority is assigned and the necessary data becomes available.

The Department informed us that evaluating the effectiveness of scholarship and grant programs against performance-related goals and student outcomes as determined by policymakers is desirable. The Department stated that if it is assigned to be the responsible entity for evaluating the effectiveness of scholarship and grant programs against performance-related goals and student outcomes as determined by policymakers, it will perform such analyses.

OSG stated that collecting student outcome-related data from postsecondary institutions is necessary for such an evaluation. To this end, OSG informed us that it plans to continue to collaborate with CEPI on the new tracking system development. OSG stated that it will provide financial aid data for this new system to allow identified policymakers to evaluate the outcome-related effectiveness of the State-funded scholarship and grant financial aid programs.

In addition, OSG informed us that it will continue to collaborate with other entities, including the Department of Energy, Labor & Economic Growth and the Michigan Department of Education, as well as secondary and postsecondary education institutions, to administer any desired program performance-related goals and student outcomes as determined by policymakers.

# GLOSSARY

## Glossary of Acronyms and Terms

|                   |  |
|-------------------|--|
| articulation      | The process that facilitates the transition of a student from one educational institution to another or from one level of education to the next with minimum duplication of coursework.  |
| CEPI              | Center for Educational Performance and Information.  |
| DHS               | Department of Human Services.  |
| effectiveness     | Success in achieving mission and goals.  |
| full-time equated | Equating to 2,080 hours of continuous service.   |
| Gear Up           | Gaining Early Awareness and Readiness for Undergraduate Programs.  |
| goal              | An intended outcome of a program or an agency to accomplish its mission.   |
| mission           | The main purpose of a program or an agency or the reason that the program or the agency was established.   |
| OSG               | Office of Scholarships and Grants.   |
| outcome           | An actual impact of a program or an agency.  |
| output            | A product or a service produced by a program or an agency.   |
| performance audit | An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability. |

|                      |   |
|----------------------|---|
| performance funding  | A system for evaluating educational quality and allotting funds to higher education institutions based on their institutional performance.  |
| persistence          | Continuous enrollment in a postsecondary institution through the completion of a degree or other educational or career goal.  |
| reportable condition | A matter that, in the auditor's judgment, falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the objectives of the audit; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.   |
| SFSB                 | Student Financial Services Bureau.  |
| student outcome      | Those education-related consequences of students' postsecondary educational experience. Outcomes may be short- or long-term, occurring during or after a student's postsecondary experience. They may be direct (i.e., an immediate consequence of some postsecondary educational experience) or indirect (i.e., due to postsecondary education's effect on some intervening variable that is more directly related to an outcome). Outcomes may also be intended (i.e., cognitive development or employability) or unintended (i.e., enhanced athletic ability, marriage, or dependence on chemical substances). |
| TANF                 | Temporary Assistance for Needy Families.  |







