



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

ROBERT J. KLEINE
STATE TREASURER

September 3, 2010

Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, Michigan 48913

Dear Director,

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached is a summary table identifying our response and corrective action plan to address the recommendations contained within the Office of the Auditor General's audit report of the Office of Scholarships and Grants, Student Financial Services Bureau, Department of Treasury.

Questions regarding the summary table or corrective action plan should be directed to me at harveyg@michigan.gov.

Sincerely,

Signature Redacted

Gary E. Harvey, Director
MHESLA and Fiscal Affairs
Student Financial Services Bureau

Enclosure

cc: Executive Office
Office of the Auditor General
House Fiscal Agency
Senate Fiscal Agency
House and Senate Appropriation Sub-committees
House and Senate Standing Committees
Thomas F. Saxton, Deputy State Treasurer
Patricia W. Scott, SFS Bureau Director



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Office of Scholarships & Grants
Student Financial Services Bureau
Department of Treasury
Summary of Agency Response to Recommendations
October 1, 2006 through June 30, 2009

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.

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 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 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.

UPDATE SINCE RELEASE OF OAG PERFORMANCE AUDIT REPORT

The Department still lacks statutory authority to compel postsecondary institutions to provide student outcome-related data. Therefore, without access to complete information, the Department is not currently evaluating the effectiveness of scholarship and grant programs against performance-related goals that are based on student outcomes. The Department does advocate for the sharing of such data and has identified specific types of

data that could be used in such analyses should policymakers assign that responsibility and authority to the Department.

In addition, OSG continues to participate with CEPI in the development of the longitudinal data tracking system and is planning for supplying financial aid award information for incorporation into this system, which should allow for correlations to be drawn between financial aid awards and degree achievement in the future.