Office of the Auditor General
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Winnipeg, Manitoba R3C 0C4

September 2002

The Honourable George Hickes
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to transmit herewith my September 2002 report on the Student Financial Assistance Program to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 28 of The Auditor General Act.

Respectfully submitted,

Jon W. Singleton, CA•CISA
Auditor General

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The Student Financial Assistance Program (Program) is an important component of the Province's post-secondary education system. By assisting students financially, it enables many to obtain an education that might not otherwise be accessible to them. As such, issues of fairness in the administration of the Program are key. It is essential that eligibility and the amount of entitlement for loans be assessed fairly and that all recipients are treated equitably when it comes time for repayment of the loans.

While we found that eligibility assessments and loan award amounts were done correctly most of the time, and that students are diligent about repaying their loans, we also found a number of opportunities to improve the operations of the Program that would also act to enhance the fairness with which it is delivered.

With respect to the granting of loans, the most important area for improvement is in independently verifying the information provided by applicants. With respect to repayments, we believe that the Program could be more diligent in seeking repayment from those students who fail to live up to their obligations. With respect to the information systems supporting the Program, we found inadequacies that hamper the effective operation of the Program.

Our report makes a number of recommendations to improve the operations of the Program. When assessing any costs that may be associated with addressing our recommendations, it will be important to take into account savings associated with reducing errors in awards and with improved collections. As noted in the Subsequent Events section of our report, the Program has, since the completion of our audit, initiated many changes. I am encouraged by the commitment of Program administrators to address the matters discussed in our report and to continue to enhance the fairness of the Program.

Jon W. Singleton, CA•CISA

Report Summary

ABOUT THE PROGRAM

The Student Financial Assistance Program (the Program) is delivered under the authority of Regulation 120/93 of The Education Administration Act and is also guided by the requirements outlined in the federal Canada Student Loans Act and the Canada Student Financial Assistance Act.

The Program's stated purpose is *"to provide supplemental financial assistance for educational purposes to post-secondary students whose finances limit their educational choices and who might otherwise be unable to obtain an education"*. This is accomplished through the administration of the Canada Student Loans Program and the Manitoba Student Financial Assistance Program.

The Program is administered largely out of the Winnipeg offices with a total staff complement of approximately 40. Of note is that the loan collection function is managed out of the Westman Regional Office (WRO) located in Brandon with a staff complement of three. The WRO manages the collection of defaulted loans claimed by the contracted financial institutions.

As of April 1, 1993, provincial student financial assistance replaced bursaries with 100% guaranteed loans that were issued through several financial institutions. From January 2, 1995 until July 31, 2000 approved Manitoba Student Loans (MSL) were issued and administered by only two financial institutions (CIBC and the Royal Bank). During this period, the financial institutions assumed the risk of loan default in return for a 5% fee, called a risk premium, calculated on the outstanding principal loan balance at the time the loan was converted to repayment status.

As at August 1, 2000 all new MSL were guaranteed by the Province, and until July 31, 2001 continued to be issued by the Royal Bank. The CIBC and the Royal Bank remain responsible for administering the loans issued during the period April 1, 1993 to July 31, 2001.

In addition to Canada and Manitoba Student Loans, a variety of bursaries and grants are available from the Program.

Program costs for the fiscal year 2000/01 totaled $8.7 million. The Program pays the interest on loans while the students are in full time attendance at a designated educational institution and for six months after their end of study date and provides interest relief, if eligible, when the "student" is in the workforce. The total value of Canada and Manitoba Student Loans issued in the 2000/01 academic year was $69.6 million (CSL $43.6 and MSL $26.0).

REASON FOR THE AUDIT

We conducted this audit because:

- of the significant impact of the Program on students and their families;
- we have not reviewed the Program in the last 10 years; and

- we believe the Program, and the increasing level of student debt, are of particular interest to many Manitobans.

AUDIT PURPOSE, SCOPE AND APPROACH

The purpose of our audit was to answer the following three questions:

1. Do only eligible students receive financial assistance and only in the amount to which they are entitled?
2. Is the program maximizing the collection of student financial assistance repayable to the Province of Manitoba?
3. Is designation status for post-secondary educational institutions appropriately granted and monitored?

For Question 1 we focused on the 1998/99 academic year. For Question 2 our audit focused on the processes in place from April 1999 to March 2001. With respect to Question 3 we focused on designation processes in place during the 1999/00 academic year.

Our examination was conducted in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Audit procedures were substantially performed during the period November 2000 through May 2001.

SUBSEQUENT EVENTS

On July 6, 2001 The Student Aid Act (Chapter S211) received royal assent. The Manitoba Student Assistance Program Regulation, Manitoba Regulation 120/93, continues in force as if made under The Student Aid Act until it is replaced, repealed or amended under this Act.

As of August 1, 2001, the Student Loan Service Bureau performs the financing and administration of new Manitoba Student Loans. This function was previously done by contracted financial institutions. The Student Loan Service Bureau is a separate branch of the Training and Continuing Education Division of the Departments of Education, Training and Youth and Advanced Education. The new bureau is the single contact for all Manitoba Student Loan transactions including loan disbursement and repayment. Loan administration will be facilitated through banking software provided by Credit Union Central of Manitoba.

On January 16, 2002 a new policy regarding the designation of educational institutions was approved by government.

Because the above-noted changes occurred after we had completed our evidence gathering and analysis, we have not described in this report these events and their potential effect on the issues we have raised.

IMPORTANT CONSIDERATIONS

The Student Financial Assistance Program is fairly complex and has undergone numerous significant changes in the last seven years. We noted that sufficient and appropriate financial expertise was not available to the Program for over five years, from 1994 to late 1999. We believe that this had a significant impact on the Program and contributed to many of the problems reflected in Question 2 of this report. An appropriately qualified and experienced Manager of Financial Services was hired in November 1999. We acknowledge the efforts of Program officials in making significant improvements in the management of the Program's loans receivable since that time.

CONCLUSIONS AND KEY FINDINGS

1. DO ONLY ELIGIBLE STUDENTS RECEIVE FINANCIAL ASSISTANCE AND ONLY IN THE AMOUNT TO WHICH THEY ARE ENTITLED?

With respect to eligibility, we concluded that the Program clearly defined and communicated eligibility guidelines. We also concluded that the vast majority of students in our sample were eligible for financial assistance. However, in our random sample of 100 students from the 1998/99 academic year, we identified three awards to ineligible students totaling $12,146. Extrapolating the results of our statistically valid sample to the total Canada Student Loans and Manitoba Student Loans awarded in the 1998/99 academic year of $56.7 million, we are 95% confident that the total of awards to ineligible students for the 1998/99 academic year is most likely $1.2 million ($.7 million - CSL and $.5 - MSL).

With respect to the amount of loan entitlement, we concluded that the Program, primarily because of the lack of verification procedures, frequently provided financial assistance to students in amounts greater than they were entitled to. Based on the results of our random sample of 100 students from the 1998/99 academic year, 34 students received overawards totaling approximately $93,000. Extrapolating the results of our statistically valid sample to the total Canada Student Loans and Manitoba Student Loans awarded in the 1998/99 academic year of $56.7 million, we are 95% confident that the total overawards for the 1998/99 academic year is most likely $9.3 million ($5.6 million - CSL and $3.7 - MSL).

Our key findings are discussed in brief below.

Program Eligibility Guidelines Are Clearly Defined And Communicated

The Province is administering its Student Loan Program, for the most part, in accordance with eligibility guidelines and policies issued by the Federal Government for the Canada Student Loans Program. Communication of Program eligibility guidelines occurs with staff, students and designated educational institutions. We found that appropriate processes were in place to communicate eligibility requirements with each of these stakeholders.

The Need, When Assessing Eligibility, To Ensure Applicants Have Satisfactorily Completed Their Most Recent Academic Year

R1 We recommend, for students who have taken previous post-secondary studies, that the Program obtain the student's most recent academic transcript as part of the application process to confirm satisfactory past academic performance.

In our random sample of 100 students from the 1998/99 academic year, 67 had previously attended a post-secondary institution. We found that two of these students were considered eligible for assistance even though they had not satisfactorily completed their two most recent academic years, and as such, received overawards totaling $10,221. Another student should have been placed on probationary status because the student had not successfully completed their most recent academic year. The Program was not aware of the students' past academic performance because reliance was placed on students' self-declarations rather than requiring an academic transcript as part of the application review process.

Costs Are Appropriately Verified

We found that, for our sample of 100 students, the Program accurately determined the following costs in assessing financial need:

- educational program costs including tuition, books and supplies, and compulsory fees;
- living allowance, which is based on student category and living situation;
- child care costs, if applicable; and
- other allowable and discretionary costs such as medical and return transportation costs.

The Need To Verify The Completeness And Accuracy Of A Student's Pre-Study And Study Period Incomes

R7 We recommend that the Program further strengthen their application review processes for verifying pre-study income and estimated study period income for all students as well as including pertinent procedures for verifying actual incomes in a comprehensive post-audit process.

We found, in our sample of 100 students, 29 awards where discrepancies existed between what the Program assessed as pre-study and study period incomes and what we estimated were the student's actual incomes. These discrepancies resulted in overawards totaling approximately $65,000.

The Program did not detect the discrepancies because processes were not in place for verifying pre-study and study period income estimates made by students. In the 2000/01 academic year, the Program began requesting a copy of the spouse's pay stub prior to the second disbursement of the loan in order to verify the spouse's income level. We support this action, but believe additional procedures are needed.

The Need To Verify The Completeness And Accuracy Of Vehicles Assets

R9 We recommend that the Program inquire of the existence of vehicle assets with the Department of Transportation and Government Services for all students applying for assistance. Establishing an electronic data link to the Department would likely be an efficient solution.

We found, in our sample of 100 students, 11 instances of vehicles that were registered in a student's name but not reported as an asset by the student. We determined that three of these vehicles had Gold Book values in excess of $5,000. These instances went undetected by the Program because inquiries were not made of the Driver and Vehicle Licensing Division of the Department of Transportation and Government Services. The failure to reflect vehicle values over $5,000 in the needs assessment calculation resulted in overawards for these students totaling $15,149.

The Need To Verify The Completeness And Accuracy Of Parental Income

In our random sample of 100 students from the 1998/99 academic year, 36 were single dependent students. In these situations parental contributions must be calculated. No errors were found in these calculations. However, the Program's decision in early 1999 to eliminate the need for parents to submit their income tax returns, caused us to look at the impact this decision might have on the accuracy of reported parental incomes in 1999/00. In our sample of 100 dependent students from the 1999/00 academic year, we found four instances where parents under reported their income, for total overawards of $4,162.

Four additional instances of overawards occurred because the Program did not sufficiently review supporting documentation, or subsequently request income tax returns, for parents wanting their lower 1999 income (rather than their 1998 income) to be used in calculating their parental contribution for the 1999/00 award. These overawards totaled $4,607.

R12 We recommend that the Program monitor, through the post-audit process, the accuracy of reported parental income, and revisit, when warranted, the decision to not require the submission of parental income tax returns.

R13 When using estimated current year parental incomes to determine parental contributions, we recommend that the Program obtain current year income tax returns to substantiate or revise estimated current year parental incomes. Parental contributrions should then be reassessed accordingly.

The Need To Strengthen Controls Over The Granting Of Discretionary Awards

Discretionary awards to a maximum of $3,333 ($2,000 - CSL, $1,333 - MSL) can be made by the Program to address a student's extraordinary financial needs. In the 1999/00 academic year, 232 CSL/MSL discretionary awards were issued for a total of $570,020.

We examined a sample of seven discretionary award files and found that the Program:

- lacked detailed guidance regarding the determination of discretionary financial need based on student's cash flow;
- did not obtain supporting documentation for living costs as required by Program policy; and
- did not require management approval of discretionary awards.

R15 We recommend that the Program develop more specific policies and procedures regarding the financial basis for granting discretionary awards.

R16 We recommend that the Program obtain and review supporting documentation for student and parents' living costs prior to granting a student a discretionary award.

R17 We recommend that Program management approve all high risk discretionary awards.

The Need To Strengthen Controls Over Communication Of Changes In Student Enrollment Circumstances That Can Result In Overawards

Changes in student enrollment circumstances include complete withdrawals, course-load reduction to below 60% of a full course-load, and course-load reductions up to 60%. Each of these situations would trigger an award reassessment that could result in an overaward. Notifying the Program in a timely manner, is a responsibility shared by the students and the educational institutions. In our sample of 100 students, eight students had completely withdrawn from their program of study or decreased their course-load below 60%. We found that for five of these instances the Program had not been informed in a timely manner by the educational institution. However, other processes helped ensure the resulting overawards were minimized.

R20 We recommend that the Program establish and advise designated educational institutions of reporting timeline expectations for student withdrawals or students dropping below 60% of a full course-load.

We also found two instances where the Program was not notified at all by the educational institution that the students had withdrawn or decreased their course-load below 60%. The failure to notify the Program resulted in undetected overawards totaling $4,758 and the payment of interest subsidy for which the students were no longer eligible.

While educational institutions are required to confirm enrollment on the loan authorization documents for both first and second disbursements, they are not required to inform the Program of subsequent course-load decreases up to 60% of a full course-load. The Program relies on students for this information. In our sample of 100 students, we found that six students had not notified the Program that they had decreased their course-loads. Five of these students reduced their course-load after the second loan disbursement. We determined that four of the six students had received overawards totaling $2,782.

Obtaining and analyzing academic transcripts, as part of the loan application process, would help to detect unreported course-load decreases and complete withdrawals. Alternatively, requiring a third enrollment confirmation for university students would likely be a more efficient approach for identifying unreported changes in enrollment and would result in more timely calculation of overawards and notification to students.

Other Findings

Other findings included in the detailed report deal with the need to:

- Ensure applicants are residents of Manitoba.
- Ensure applicants are not in default of previous federal or provincial student financial assistance.
- Strengthen the Program's policy on the collection of bursary receivables in repayment status for students receiving new CSL/MSL awards.
- Better communicate to students the risks of submitting late applications.
- Ensure declarations of single independent status are valid.
- Verify the accuracy of reported financial assets and gain greater assurance regarding completeness.
- Limit loan awards to a student's perceived need, if lower than the assessed need and the maximum of $275 per study week.
- Engage Manitoba public universities and colleges in seeking better coordination and information sharing processes regarding scholarships/ bursaries.
- Apply the $275 per study week maximum when reassessing students who have withdrawn from their program of study.
- Better communicate reasons for reassessed award values.
- Strengthen controls over the confirmation of enrollment for out of Province students.
- Develop a quality assurance review process.

2. IS THE PROGRAM MAXIMIZING THE COLLECTION OF STUDENT FINANCIAL ASSISTANCE REPAYABLE TO THE PROVINCE OF MANITOBA?

We concluded that while the Program had diligently worked to improve the management of loans receivable since the end of 1999, existing practices did not ensure that the Program was maximizing the collection of student financial assistance repayable to the Province of Manitoba.

As noted in our discussion of subsequent events, as of August 1, 2001 a Student Loan Service Bureau was established to perform the financing and administration of new Manitoba Student Loans. Loan administration will be facilitated through banking software provided by Credit Union Central of Manitoba. The Departmental responses to some of our recommendations, which we have reproduced in the detailed report, refer to the impact of these changes on the issues reported.

Our key findings are discussed in brief below.

The Need For The Program's Automated Information System To Better Meet The Information Needs Of Users

We found that loans receivable were not appropriately aged to reflect outstanding payment requirements. The information system showed as current any account for which a payment, in any amount, was received in the reporting period despite the fact that a number of previous payments had not been received. Making a partial payment on an account that is several months in arrears does not make the remainder of the account current.

R31 We recommend that the Program determine the extent to which its current information system is capable of being amended to better address the Program's information needs. The Program should then pursue amendments that are judged to be cost-effective.

We also found that important information regarding the collection actions that had been performed on each account was not recorded or not accumulated in such a way that the information could be readily compiled and analysed. To compensate in part for this lack of information, stand alone spreadsheets were created.

In addition, we noted that the information system did not generate all the information needed to efficiently reconcile the loans receivable subledger to a control account, once again resulting in stand alone spreadsheets.

The Need To More Frequently Utilize Aggressive Collection Methods

We examined a sample of 30 loans receivable. For 12 of these accounts the Program had located the debtor and had initiated collection actions. However, the Program had only collected $4,817 (16%) to March 31, 2001 from a total initial receivable balance of $29,372.

R32 We recommend that the Program utilize right of set-off and when warranted pursue legal action to collect loans receivable. Furthermore, the Program should establish formal collection policies that define what collection actions are available and when each action is to be used.

We found that for these 12 accounts, collection efforts, whether exercised by Program staff or a collection agency, were limited to letters and telephone calls. In our view, these actions are very passive and, based on the collection results of the accounts we examined, not effective.

Between February 2000 and May 2001 we noted legal action was only pursued on eight accounts, dating from November 30, 1994 to July 28, 1998. Program officials acknowledged that they were not using legal action as often as possible. In addition, we noted that right of set-off was not utilized by the Program. Both of these collection methods were available to the Program through the Financial Administration Act. In interviews with student financial assistance officials from five other provinces, we noted that other provinces indicated that they were more aggressively using legal action and right of set-off.

The Need To Initiate More Timely Collection Actions On Post-1997 Bankruptcy Accounts

We found that the Program had not initiated any collection actions, as at January 31, 2001, for accounts where debtors had declared bankruptcy on or after September 30, 1997. As at January 31, 2001 there were 111 post-1997 bankruptcy accounts totaling $356,145.

R33 We recommend that the Program evaluate the cost/benefit of pursuing debtors whose other debts, at the time of declaring bankruptcy, have not been discharged for a significant length of time.

The impact of the untimely collection actions taken by the Program is summarized as follows:

- 25 accounts, totaling $92,834, were deemed uncollectable;

- while collection actions on 53 accounts (totaling $166,060) had been initiated as at June 2001, 19 of these accounts had previously sat dormant with no collection actions taken for over two years after other debts had been discharged by the courts and 15 accounts for over one year. Such significant time delays may have impaired the Program's ability to collect because tracing, locating and pursuing the debtor may become more difficult with the passage of time; and
- the remaining 33 accounts totaling $97,251 were primarily accounts where the debtors' other debts had not been discharged by the courts as at March 31, 2001. As such, the Program could not initiate collection actions without court permission.

The Bankruptcy Act was amended in 1997 so that student loan debts that are part of debts declared on or after September 30, 1997 remain a debt of the student when the student is within two years of graduating. The two year period was extended to 10 years for bankruptcies declared on or after June 18, 1998.

The Need For The Program To Evaluate Its Performance On Collecting Student Loans In Default

R37 We recommend that the Program collect historical data in order to establish appropriate benchmarks for the Program's collection activity.

The Program lacks the detailed comparative historical collections data necessary to establish a benchmark for the Program's collections. We found that the Program had compiled collection data for each of the collection agencies utilized in 2000/01 but similar information had not been compiled or analyzed for previous years.

Other Findings

Other findings included in the detailed report deal with the need to:

- Record new claims for loss on a more timely basis.
- Accrue interest on post-1997 bankruptcy accounts.
- Obtain authority to pay claims for loss for specified circumstances.
- Obtain information regarding the value of limited guaranteed loans.
- Ensure the information system accurately calculates interest on loans receivable.
- Better manage bursary receivables.
- Ensure required information is obtained from contracted financial institutions.
- Verify debtor eligibility for interest relief.
- Verify the eligibility of interest subsidy recipients.

3. IS DESIGNATION STATUS FOR POST-SECONDARY EDUCATIONAL INSTITUTIONS APPROPRIATELY GRANTED AND MONITORED?

Based on our sample of newly designated educational institutions, we concluded that designation status was appropriately granted. However, we also concluded that the Program did not adequately monitor designated educational institutions to ensure that they continued to comply with designation criteria and with administrative requirements. In addition, we concluded that the Program had not adequately defined performance expectations for designated educational institutions.

As noted in our discussion of subsequent events, on January 16, 2002 a new policy regarding the designation of educational institutions was approved by government. The Departmental responses to some of our recommendations, which we have reproduced in the detailed report, refer to the impact of these changes on the issues reported.

Our key findings are discussed in brief below.

The Need For Memorandums Of Understanding With Canadian Educational Institutions

We found that while the Program notified each educational institution in writing regarding the designation decision and provided them with pertinent material regarding the Manitoba Student Financial Assistance Program and its administrative requirements, signed performance agreements or memorandums of understanding (MOUs) were not in place with any educational institution.

R46 We recommend that the Program negotiate MOUs with designated Canadian private and public educational institutions.

R48 We recommend that compliance to the terms of the MOU be reflected in the criteria for maintaining designation status.

The Need To Establish Threshold Default Rates

We found that the Program had not identified threshold default rates to trigger discussions with designated institutions regarding remedial actions or de-designation. We believe that threshold rates are essential to allow the Program to more effectively and consistently assess and react to excessive default rates incurred by the former students of a particular institution. Default rates in excess of a specified target could be indicative of the quality of the institution's programs or possibly the lack of adequate debt counseling.

R50 We recommend that the Program:

- establish threshold default rates;
- calculate annually the default rates by educational institution where the number of MSL recipients in repayment status exceeds a predetermined minimum level; and
- take appropriate corrective actions when educational institutions exceed or are near the threshold rates.

We also noted that delinquency rates by educational institution were only available for risk loans held by one financial institution. Nonetheless, from this unaudited information, we noted that, as at July 31, 2000, only two of 11 public educational institutions in Manitoba had delinquency rates of 10% or less. Because the vast majority of Manitoba students attend public institutions in Manitoba, we believe that the elevated delinquency rates suggest that greater inter-agency cooperation is needed.

For the purposes of this discussion we refer to **delinquency rates** rather than **default rates.** This is because the two financial institutions that issued risk loans did not report actual default rates to the Program, but rather loans with no payments for 90 days or over.

In addition, we noted that, as at July 31, 2000, only three of 25 private institutions in Manitoba had delinquency rates of 10% or less. This suggests to us that the Program must be much more diligent in ensuring that its expectations are met.

The Need To Better Monitor For Ongoing Compliance With Designation Criteria

For our sample of 100 students, we found that, as part of its loan approval process, the Program appropriately reviewed designated institutions for continuing compliance with the designation criterion dealing with program of study. The Program, however, did not monitor for continuing compliance with the other three designation criteria.

R52 We recommend that the Program perform, on a cyclical basis, structured reviews to determine whether designated educational institutions continue to comply with all designation criteria.

R54 We recommend that the Program gather information on the extent and timeliness of compliance with administrative requirements. When performance is below expectations, appropriate actions should be initiated.

The Need To Monitor For Compliance With Administrative Requirements

While the Program had established administrative requirements, we found that the Program did not set specific reporting timeline expectations and did not conduct any monitoring procedures. As such, the Program could not be fully aware of the extent to which designated institutions continued to meet its administrative requirements or whether it was receiving the information it required on a timely basis.

Other Findings

Other findings included in the detailed report deal with the need to:

- Review the adequacy of the designation criteria.
- Ensure, for private training institutions, that the designation criteria regarding accreditation, certification, or attestation by industry representatives is met.
- Clarify Program expectations regarding debt counseling.
- Establish, in collaboration with Manitoba designated educational institutions, “acceptable” program of study completion and employment after graduation rates, and monitor performance against these rates.

KEY RECOMMENDATIONS

This report includes 54 recommendations. Next to each key finding discussed above, we indicate what we believe are the 18 key recommendations.

Introduction

We chose to conduct a value-for-money audit on the Student Financial Assistance Program because:

- of the significant impact of the Program on students and their families;
- we have not reviewed the Program in the last 10 years; and
- we believe the Program, and the increasing level of student debt, are of particular interest to many Manitobans.

About the Program

ORGANIZATION

In January 2001, the Department of Education and Training was divided into two ministries: Department of Education, Training and Youth, and Department of Advanced Education.

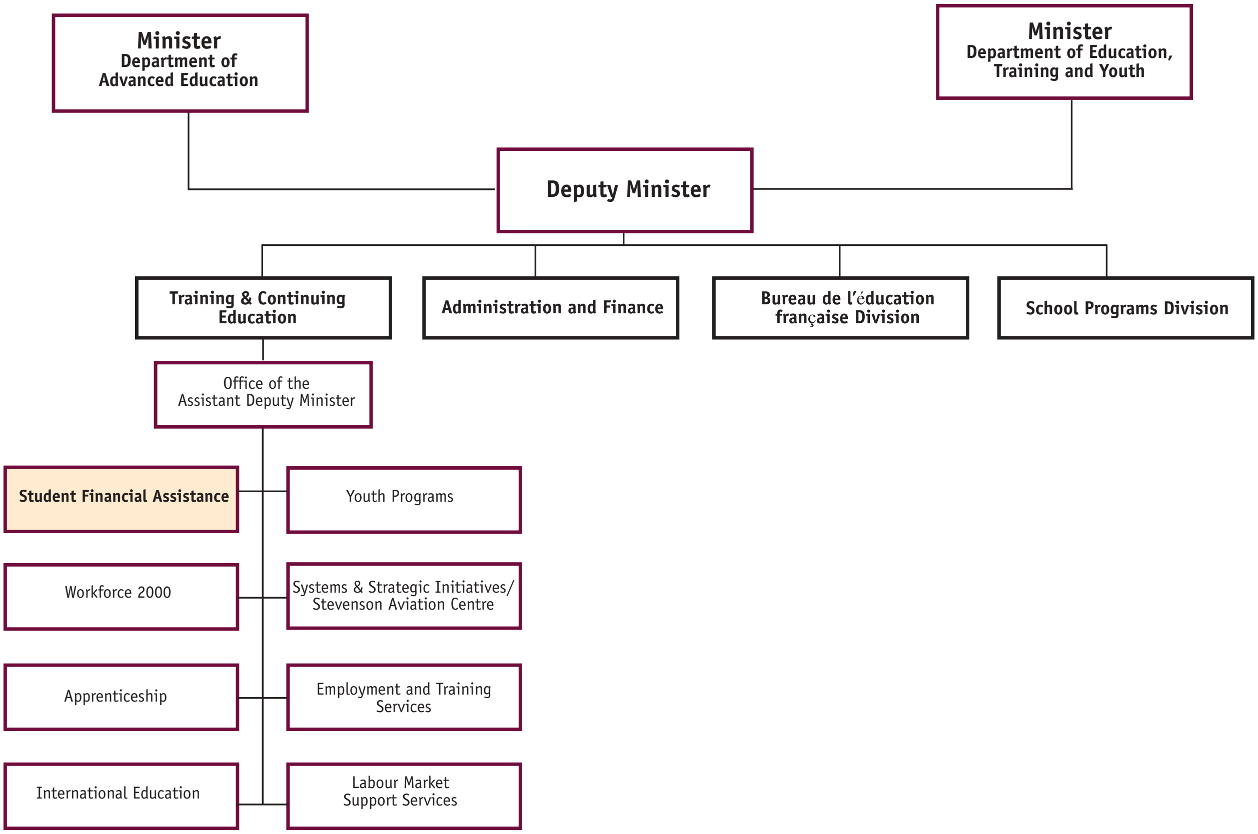
The Minister of Education, Training and Youth has responsibility for Manitoba's elementary/secondary education systems, as well as all training programs and employment opportunity interventions. The Minister of Advanced Education has responsibility for Manitoba's post-secondary education systems.

The mission of both ministries is *"to provide access to relevant education and training that is of high quality, affordable, available and responsive. An educated citizenry and a skilled and adaptable workforce are considered as Manitoba's most important assets in a knowledge intensive society. All citizens should have the opportunity to develop their individual potential and contribute to the economic, social and cultural life of Manitoba in a global context".*

The Student Financial Assistance Program (the Program) is the responsibility of the Training and Continuing Education Division of the Departments of Education, Training and Youth and Advanced Education. The vision of Training and Continuing Education is *"to provide continuous learning and personal empowerment, which is the foundation of a prosperous and healthy Manitoba".* The Division is *"committed to providing the information, opportunities and inspiration for Manitobans to acquire skills, knowledge, experience and employment. Through partnerships, Training and Continuing Education will enable Manitobans to contribute to a dynamic province built on individual, workplace and community strengths".* The programs and services administered by the Division are delivered through eight branches as shown in Figure 1.

FIGURE 1

Departments of Education, Training and Youth and Advanced Education Organization Chart as at March 31, 2001



The Program is delivered under the authority of Regulation 120/93 of The Education Administration Act and is also guided by the requirements outlined in the federal Canada Student Loans Act and the Canada Student Financial Assistance Act.

The Program's stated purpose is *"to provide supplemental financial assistance for educational purposes to post-secondary students whose finances limit their educational choices and who might otherwise be unable to obtain an education".* This is accomplished through the administration of the Canada Student Loans Program and the Manitoba Student Financial Assistance Program.

The Program is organized into three main service areas: Operations, Financial Services and Program Development and Analysis. Descriptions of the services provided by each service area are detailed in Figure 2.

FIGURE 2

Program Services

Service Area	Services Provided
Operations	
Assessment for Student Financial Assistance	Processing applications to determine eligibility and amount of award. Applications are processed for a number of financial aid instruments as follows: • Canada Student Loan • Canada Study Grants • Canada Millennium Scholarship Bursaries • Manitoba Student Financial Assistance: - Manitoba Student Loan - Manitoba Study Assistance - Prince of Wales/Princess Anne Bursary - Special Manitoba Loan - Manitoba Bursary • Access Bursary Providing administration and coordination for the Manitoba Scholarships and Bursaries Initiative.
Information Services	Preparing and distributing internal and external communication documents such as application forms, brochures, handbooks and manuals. Conducting public information campaigns on behalf of the Program. Fielding and responding to client inquiries over the telephone and on a walk-in basis.
Designation and Monitoring of Educational Institutions	Designating post-secondary educational institutions and programs as suitable for recipients of financial assistance from the Canada Student Loans Program and the Manitoba Student Financial Assistance Program. Developing and maintaining designation criteria. Conducting ongoing assessments against the criteria.
Financial Services	Providing financial systems planning, design and implementation. Budgeting and processing revenue and expenditures. Reporting on program revenues and expenditures and on the loan portfolio. Negotiating with financial institutions to provide student loans. Managing loans receivable including collecting defaulted student loans and administrating collection agency contracts.
Program Development and Analysis	Providing program database management and analysis on relevant program statistics for program planning, budgeting and reporting.

SERVICE AREAS

Our audit focused mainly on the performance of three areas:

1. assessing a students eligibility and need for financial assistance;
2. designating educational institutions; and
3. recording and collection of loans receivable.

Assessing Students for Financial Assistance

The cost of a post-secondary education is considered the primary responsibility of students and their immediate families. Financial assistance provided by the Program to post-secondary students, comprised of loans and bursaries, is need-based, and is meant to supplement not replace the resources available to the applicant. Assistance is based on an assessment of financial need that compares the applicant's allowable educational and living costs to his or her available resources.

With respect to student loans, the Program administers both the Canada Student Loan (CSL) and the Manitoba Student Loan (MSL) programs. There is sufficient harmony between the CSL and MSL programs to have one assessment process determine both CSL and MSL awards. The maximum assistance a student can receive under the combined programs is $275 per study week, CSL of $165 (60%) and MSL of $110 (40%). Students are eligible to receive the lesser of the maximum student loan award or the student's individual assessed need. Students whose needs exceed the combined Canada and Manitoba Student loans may be eligible for non-repayable Manitoba Study Assistance (MSA) of up to a maximum of $40 per study week. In total, eligible students may receive up to $315 per study week. Unlike traditional bank loans or personal lines of credit, the Program does not base loan eligibility on demonstrated ability to repay and therefore students do not have to pledge collateral or have their loan co-signed.

There is no written agreement between the Federal government and the Province for the delivery of the Canada Student Loans Program. However, the Province does receive an administration fee from the Federal government on an annual basis.

With respect to bursary assistance programs:

- The Access bursary provides individuals from under-represented groups in post-secondary educational institutions such as Aboriginals, females, single parents, and immigrants with non-repayable financial assistance to attend certain programs at five Manitoba public institutions.
- The Prince of Wales/Princess Anne bursary is non-repayable assistance of $200 per academic year that is granted to Aboriginal students.
- Canada Study Grants are non-repayable financial assistance for students with dependents, permanent disabilities, women pursuing doctoral studies in eligible fields of study, and high-need part-time students.

In addition to CSL and MSL awards, discretionary loan awards may be provided by the Program up to a maximum of $3,333 per student (CSL - $2,000 and MSL - $1,333). These loans are provided to students who either did not have an assessed need, or for whom the assessed need is inadequate to meet their financial requirements. Discretionary awards are provided on a one-time only basis to address a student's extraordinary circumstances that are not considered in the original assessment of their financial need. Program staff review requests for discretionary awards on a case-by-case basis.

Designating Educational Institutions

Students must attend a designated post-secondary educational institution to be eligible for CSL/MSL. The Program assesses post-secondary educational institutions and their programs of study for compliance with predetermined designation criteria. The Canada Student Loans Act and the Canada Student Financial Assistance Act allow the Federal government to delegate the responsibility for establishing criteria for the designation of post-secondary educational institutions to the provinces. Designation criteria can be defined as those characteristics of an educational institution and of a specific program of study judged to be essential to increase the likelihood that students will be provided with a quality education and a reasonable expectation of employment upon graduation.

Managing the Recording and Collection of Loans Receivable

The Financial Services area is responsible for developing and maintaining financial systems and for financial analysis and reporting. This includes the disbursement of program expenditures and the management of loans receivable arising from claims for loss from financial institutions on defaulted student loans and from bursary overpayments to students.

From April 1, 1993 to January 1, 1995, provincial student financial assistance replaced bursaries with 100% guaranteed loans that were issued through several financial institutions. From January 2, 1995 to July 31, 2000, MSLs were issued through only two financial institutions under the risk loan program. The Program paid the contracted financial institution a one time risk premium, equaling 5% of the loan amount, for each loan administered by the financial institution. The risk premium became due after the borrower ceased to be a qualifying student and prior to the due date of the borrower's first payment. In return for the risk premium, the Province did not guarantee the loans.

Notwithstanding the above, the Province guaranteed loans if at any time up to the due date of the borrower's first payment, the borrower:

- was still a minor,
- became deceased, or
- entered into an event of insolvency.

In addition, the Province guaranteed loans on a limited basis if the credit check, conducted by the contracted financial institution, indicated a history of credit abuse. As a limited guaranteed loan, the amount of the guarantee diminished in direct proportion to the length of time the student was in repayment status. For these loans, when a claim for loss payment was made, the amount of the risk premium paid would be adjusted to 5% of the portion of the loan balance that was not guaranteed by the Province.

The Program had service agreements in place with two financial institutions as follows:

- Canadian Imperial Bank of Commerce from January 1995 to June 1998.
- Royal Bank from June 1997 to July 2000.

The agreement periods noted above reflect the timelines that the particular institution was issuing loans to students. The banks remain responsible for administering the loans issued during these periods. When the risk loans program ended on July 31, 2000, the agreement with the Royal Bank was extended to July 31, 2001 on the basis that all loans approved on or after August 1, 2000 would be fully guaranteed by the Province.

The agreements were identical with the two financial institutions and defined the roles, responsibilities and reporting requirements, as detailed in Figure 3.

FIGURE 3

Service Agreements with Financial Institutions

The service agreements defined the:
- Terms for loan repayments by students;
- Terms for payments by the Program to the financial institution for:
  - risk premiums,
  - interest while the student attended school full-time and for six months after, and
  - claims for loss;
- Nature of documentation required to support claims for loss and the timing for when the claims for loss would be made; and
- Nature and timing of information to be reported on delinquent loans.

The Program pays the interest on the student's loan while the student is attending school full-time and for the six months following completion. The Federal government does not pay interest on CSL during the six months following completion of studies. Students begin repayment of loan principal and interest six months after they graduate or cease to be a full-time student.

SIGNIFICANT RECENT CHANGES TO THE PROGRAM

The Program has experienced the following significant changes in recent years:

- As of August 1, 1998 interest relief and debt reduction initiatives were implemented as measures to combat increasing loan default rates. Both of these initiatives mirror the Federal government's interest relief and debt reduction programs implemented for the CSL Program.

  Interest relief assists borrowers who are experiencing undue hardship in meeting their repayment obligations due to periods of unemployment, low income, or exceptional expenses. This initiative is available in six month intervals and provides up to 54 months of interest relief to the borrower during which time the Program pays the financial institution the loan interest on behalf of the borrower.

  Debt reduction assists borrowers that have high debt loads and face difficulties in making their repayment obligations. To be eligible for debt reduction students must have exhausted full interest relief benefits. The amount of the debt reduction varies according to the borrower's loan principal at the time of the application, the family size of the borrower, and the family income. The maximum reduction for CSL is $10,000 or 50% of the loan principal whichever is less. The maximum reduction for MSL is $6,667 or 50% of the loan principal whichever is less.

- In 1998 the Federal government established the Canada Millennium Scholarship Foundation in response to rising student loan debt loads and loan default rates. Beginning with the 1999/00 academic year, Manitoba's share of the $2.5 billion scholarship endowment, based on population, will be approximately $11.0 million each year for the next 10 years.

Canadian Millennium Scholarship bursaries are non-repayable and are granted to those MSFAP recipients who have the highest assessed financial need, have successfully completed at least one year of previous post-secondary studies, and are full-time under-graduate students studying in Canada. During the 2000/01 academic year approximately 3,000 students were awarded Canada Millennium Scholarship bursaries ranging from $1,000 to $4,500 per student. These awards were paid directly to the student's lender to be applied first against the student's last two years of MSL awards and then against the student's last two years of CSL awards.

- In the 2000/01 academic year the Manitoba Bursary was introduced to complement the Canadian Millennium Scholarship Bursary. As a result, the Manitoba Bursary is targeted at first year undergraduate students and graduate students who are attending Canadian post-secondary educational institutions. Program management estimates that approximately 2,600 students were awarded this bursary in the 2000/01 academic year. The Manitoba Bursary awards ranged from $100 to $5,720 and were paid directly to the student's lender to be applied against the student's 2000/01 MSL.

PROGRAM DELIVERY COSTS

The program incurs the following expenditures in providing Manitoba Student Loans:

- interest on Manitoba Student Loans while students are in school full-time and for six months after end of study date;
- a risk premium of 5% of the principal balance of the student's loan due after the borrower ceases to be a qualifying student and prior to the due date of the borrower's first payment;
- interest relief benefits for eligible borrowers in repayment status;
- claim for loss payments on loans issued by a financial institution:
    - where prior to the loan being consolidated by the borrower the borrower enters into an event of insolvency, is a minor, or is deceased, and
    - when the borrower defaults on a limited guaranteed loan or fully guaranteed loan.

Figure 4 provides a three year history of the expenditures incurred by the Program. Over this timeframe program costs overall have remained relatively constant. Of note, however, is that interest relief expense has increased substantially and steadily since this initiative was introduced in 1998 likely due to an increased borrower awareness of the Program and an increasing number of loans in repayment status. Conversely, claims for loss payments have decreased substantially since 1998/99 because of the reduction in pre-1995 loan defaults (fully guaranteed program) and the effect of the risk loan program between 1995 and July 31, 2000.

FIGURE 4

Program Costs
(000s)

Fiscal Year	Interest Subsidy	Risk Premium	Interest Relief	Claims for Loss Paid on Defaulted Loans	Administrative Costs (Note 1)	Total
1998/99	$ 3,675.7	$ 1,073.5	$ 271.3	$ 1,130.2	$ 2,203.9	$ 8,354.6
1999/00	3,683.6	1,077.2	786.8	533.6	2,231.7	8,312.9
2000/01	3,391.8	1,028.5	1,156.0	380.5	2,716.3	8,673.1

Note 1: Comprised of salaries, benefits and operating expenditures

Source: Departmental Annual Reports and Program internal reports

STUDENT LOAN DATA

Figure 5 provides a five year history of Canada and Manitoba Student loans approved from 1996/97 to 2000/01. The Figure highlights the impact that the Canada Millennium Scholarship bursary and the Manitoba Bursary have had on the average loan.

In 2000/01, the Program processed 15,343 applications for Canada Student Loans and Manitoba Student Loans and issued 11,459 Canada Student Loans ($43,633.7) and 10,342 Manitoba Student Loans ($25,946.8). The Program also processed 276 applications for Manitoba Study Assistance and awarded 90 of these bursaries ($111.1).

FIGURE 5

Student Loan Awards
(000s)

Academic Year	Canada Student Loans	Manitoba Student Loans	Sub-total	CMSB (Note 1)	Manitoba Bursary	Total	Average Loan
1996/97	$ 40,593.4	$ 24,902.6	$ 65,496.0	$ -	$ -	$ 65,496.0	$ 5.1
1997/98	40,238.9	24,844.1	65,083.0	-	-	65,083.0	5.9
1998/99	37,337.1	23,824.7	61,161.8	-	-	61,161.8	5.6
1999/00	42,205.3	27,360.6	69,565.9	10,588.5	-	58,977.4	5.3
2000/01	43,633.7	25,946.8	69,580.5	10,004.7	3,825.1	55,750.7	4.9

Note 1: Canada Millennium Scholarship Bursary

Source: Departmental Annual Reports

Figure 6 indicates that as at March 31, 2001 there were approximately $113 million in issued and outstanding student loans of which about $62 million related to loans in repayment status. Of the $61 million of risk loans in repayment status, $12.9 million or 21% were in arrears 90 days or more.

FIGURE 6

Manitoba Student Loans (000s)	
Type and Period of Issue	**March 31, 2001**
Guaranteed loans issued prior to January 2, 1995	
• In non-repayment status	$ 440.5
• In repayment status	1,508.1
Risk loans issued January 2, 1995 to July 31, 2000	
• In non-repayment status	29,567.5
• In repayment status	60,976.1
Guaranteed loans issued August 1, 2000 to March 31, 2001	
• In non-repayment status	20,185.2
• In repayment status	-
Totals	
• In non-repayment status	50,193.2
• In repayment status	62,484.2
Overall Total	**$ 112,677.4**

Audit Purpose, Scope and Approach

The purpose of our audit was to answer the following three questions:

1. Do only eligible students receive financial assistance and only in the amount to which they are entitled?
2. Is the program maximizing the collection of student financial assistance repayable to the Province of Manitoba?
3. Is designation status for post-secondary educational institutions appropriately granted and monitored?

With respect to Question 1 our audit focused on the assessment processes in place during the 1998/99 academic year through examination of a random sample of 100 students that received student loans. For Question 2 our audit focused on loans receivable and collections processes in place during April 1999 to March 2001 including examination of a random sample of 30 new loans receivable and 40 loans receivable that were written off by the Program during this time period. With respect to Question 3 our audit focused on designation processes in place through examination of a random sample of nine educational institutions that were designated between August 1, 1999 and July 31, 2000.

As well, we reviewed various pertinent policies, reports, agreements, and other documents and conducted numerous interviews with Program officials and senior Departmental officials. In addition, we conducted interviews with financial aid officers from three post-secondary educational institutions in Manitoba and officials from student financial assistance programs in five other provinces. Audit procedures were substantially performed during the period November 2000 through May 2001.

Our examination was conducted in accordance with value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures, as we considered necessary in the circumstances.

Subsequent Event

On July 6, 2001 The Student Aid Act (Chapter S211) received royal assent. The Manitoba Student Assistance Program Regulation, Manitoba Regulation 120/93, continues in force as if made under The Student Aid Act until it is replaced, repealed or amended under this Act.

As of August 1, 2001, the Student Loan Service Bureau now performs the financing and administration of new Manitoba Student Loans. This function was previously done by contracted financial institutions. The Student Loan Service Bureau is a separate branch of the Training and Continuing Education Division of the Departments of Education, Training and Youth and Advanced Education. The new bureau is the single contact for all Manitoba Student Loan transactions including loan disbursement and repayment. Loan administration will be facilitated through banking software provided by Credit Union Central of Manitoba.

On January 16, 2002 a new policy regarding the designation of educational institutions was approved by government.

Because the above-noted changes occurred after we had completed our evidence gathering and analysis, we have not described in this report these events or their potential effect on the issues we have raised.

Audit Findings and Recommendations

1. DO ONLY ELIGIBLE STUDENTS RECEIVE FINANCIAL ASSISTANCE AND ONLY IN THE AMOUNT TO WHICH THEY ARE ENTITLED?

WHAT WE CONCLUDED

With respect to eligibility, we concluded that the Program clearly defined and communicated eligibility guidelines. We also concluded that the vast majority of students in our sample were eligible for financial assistance. However, in our random sample of 100 students from the 1998/99 academic year we identified three awards to ineligible students totaling $12,146. Extrapolating the results of our statistically valid sample to the total Canada Student Loans and Manitoba Student Loans awarded in the 1998/99 academic year of $56.7 million, we are 95% confident that the total awards to ineligible students for the 1998/99 academic year is most likely $1.2 million ($.7 million - CSL, and $.5 million - MSL).

With respect to the amount of loan entitlement, we concluded that the Program, primarily because of the lack of verification procedures, frequently provided financial assistance to students in amounts greater than they were entitled to. Based on the results of our random sample of 100 students from the 1998/99 academic year, 34 students received overawards totaling approximately $93,000 (from 40 errors). Extrapolating the results of our statistically valid sample to the total Canada Student Loans and Manitoba Student Loans awarded in the 1998/99 academic year of $56.7 million, we are 95% confident that the total overawards for the 1998/99 academic year is most likely $9.3 million ($5.6 million - CSL, and $3.7 million - MSL).

An **overaward** is defined as the loan amount in excess of what the recipient is actually entitled to.

FIGURE 7

Summary of our Audit Findings Extrapolated over the Applicable Population for the 1998/99 Academic Year

Process	Report Section Number	Errors Identified by Audit		Extrapolated Audit Findings (Note 1)		
		#	$	Lower Error Limit	Most Likely Error	Upper Error Limit
Eligibility	1.2	3	**12,146**	-	**$ 1,212,900**	-
Amount of Loan Entitlement						
Financial Resources	1.3.2	34	85,333	$ 5,180,160	$ 8,521,326	$ 12,379,358
Changes in Enrollment Status	1.3.4	6	7,540	133,159	752,944	1,788,872
Total		40 (Note 2)	**92,873**		**$ 9,274,270**	

Note 1: Based on a 95% confidence level.
Note 2: 40 errors occurred in 34 student awards.

While information is not available from the Program, management estimates that students do not cash approximately 3-5% of the total approved awards. Officials advised that the total award balance is adjusted as information is received from students or educational institutions, but they have no processes to ensure they are advised in due course of all awards not cashed. As a result, while the total population of $56.7 million is net of certain awards that were not cashed, management did not have the information to readily determine the remaining amount of awards that had not been cashed. With respect to our sample of 100, we focused on the amount awarded rather than cashed because the amount awarded represents the Program's maximum exposure and represents the output of their assessment processes.

We reached our conclusion by examining the following criteria:

1.1 The Program should clearly define and communicate eligibility guidelines.
1.2 Successful applicants should meet the Program's eligibility guidelines.
1.3 An applicant's loan entitlement should be based on an appropriate assessment of financial need.
1.4 The Program's decision and rationale should be documented and communicated to the student.
1.5 The Program should ensure enrollment is confirmed prior to disbursing financial assistance.

To evaluate the criteria we examined and reviewed:

- applicable legislation;
- policies and procedures for assessing students against the eligibility criteria and for assessing loan entitlement;
- various information brochures and guidebooks on the Program; and
- student files and other records maintained by the Program for a sample of 100 student awards from the 1998/99 academic year. From the Program's total number of awards for the 1998/99 academic year of 10,998, we excluded from our scope students receiving Access bursaries, students receiving part-time CSL, Manitoba Study Assistance bursaries, and students with study period end dates after December 31, 1999. As a result, the extrapolation of our results was based on a total population of 9,986 awards as shown in Figure 8.

FIGURE 8

1998/99 Academic Year

	Number of Awards	Amount of Loans Awarded (000s)
Disclosed in Departmental Annual Report	10,998	$ 61,161.8
Less:		
• Program adjustments and audit exclusions (Note 1)	1,012	4,511.2
Population for audit (CSL/MSL)	9,986	$ 56,650.6

Note 1: Audit exclusions consist of Manitoba Study Assistance, Access Bursary and the related CSL, Part-time CSL, and CSL/MSL awards for study period end dates after December 31, 1999

We also interviewed numerous Program officials, three financial aid officers from post-secondary educational institutions in Manitoba and officials from student financial assistance programs in five other provinces.

WHAT WE FOUND

1.1 Program Eligibility Guidelines Are Clearly Defined And Communicated

Eligibility guidelines are important because they ensure all applicants are treated fairly and that the application process is equitable.

The Province is administering its Student Loans Program, for the most part, in accordance with eligibility guidelines and policies issued by the Federal government for the Canada Student Loans Program. The eligibility guidelines for the Manitoba Student Loans Program are outlined in Figure 9.

Communication of Program eligibility guidelines occurs with staff, students and designated educational institutions. We discuss the Program's communications approach to each of these stakeholders below.

Program Staff

Communication of the Program's eligibility criteria to Program staff occurs primarily through the Program's policy and procedures manual. The manual describes in detail the eligibility criteria and how student financial assistance is to be calculated for each type of financial assistance awarded by the Program. The policy and procedures manual is updated on an annual basis.

In our interviews with six Program staff involved in the loan/bursary assessment and communications functions, they indicated that they were satisfied with the clarity of the guidelines as described in the policy manual. In addition, they advised us that updated information pertaining to the guidelines is communicated to them through weekly staff meetings and if needed, clarification is provided through on-the-job supervision.

Students

The Program's eligibility guidelines are communicated to students through brochures produced by Human Resources Development Canada (HRDC) for the Canada Student Loans program and through the application form. The application forms undergo annual revision, incorporating feedback from Program staff and educational institutions. In addition, the Program has recently set up its own website that, among other things, provides the eligibility information described in the brochures and application forms.

In 2000 the Program participated with HRDC in the production of a joint student brochure called "Financing Your Future with a Student Loan – Apply Yourself". We were advised that the brochure was focus tested with students. In our view, this brochure is clearer and easier to read than the previous CSL brochures.

Designated Educational Institutions

Annually, the Program produces a detailed guidebook that is made available to designated educational institutions. This guidebook is distributed at the Program's annual information session for designated institutions in Manitoba and forwarded to out-of-Province institutions. In our discussions with financial aid officers from three of the larger Manitoba educational institutions, they indicated that they believed the Program was generally doing a good job communicating the eligibility guidelines to both themselves and to the students.

1.2 The Need To Better Ensure All Applicants Meet The Eligibility Guidelines

To determine whether award recipients met the eligibility guidelines, we selected a random sample of 100 students who received CSL/MSL awards in the 1998/99 academic year with a study period end date of no later than December 31, 1999.

FIGURE 9

Analysis of Awards to Ineligible Students Due to Eligibility Assessment Errors Based on a Sample of 100 Student Loans (1998/99 Academic Year)

Eligibility Guideline	Number of Exceptions Noted	Awards to Ineligible Students
Canadian citizen or landed immigrant	-	$ -
Resident of Manitoba	1	1,925
Enrolled in at least 60% of a full course load in an approved program at a designated educational institution	-	-
Enrolled in a program meeting minimum program length and study period timeframes	-	-
Does not exceed maximum number of years of assistance for the current program of study	-	-
Does not exceed maximum number of weeks of assistance over a lifetime	-	-
Not be in default of previous federal or provincial student financial assistance	(Note 1)	-
Satisfactory completion of at least 60% of a full course load for the previous academic year	3 (Note 2)	10,221
Total		**$ 12,146**

Overawards of $12,146 extrapolated over population of loans (Note 3)

Lower Error Limit	Most Likely Error	Upper Error Limit
$13,301	$1,212,900	$3,043,865

Note 1: Because of the lack of information at the Program, we could not determine whether those students in our sample with previous student financial assistance had been in repayment status and had been in default.
Note 2: Two of these exceptions resulted in overawards.
Note 3: Based on a 95% confidence level.

For our sample of 100 students, we found that the Program accurately recorded all pertinent information on the application form into the Program's information system.

While we determined that most award recipients in our sample appropriately met the eligibility guidelines, as illustrated in Figure 9, certain exceptions were noted that resulted in awards to ineligible students totaling $12,146. Extrapolated over the loan population subject to audit of $56,650,000, we are 95% confident that the most likely amount of awards to ineligible students is approximately $1,212,900 as reflected in Figure 9. The range between the lower and upper error limit is quite pronounced because the number of exceptions is low. We did not extend our sample size to increase our precision but rather conducted other audit procedures to understand the cause of the exceptions.

We identified three concerns regarding the adequacy of processes for determining whether eligibility guidelines are met, as follows:

- 1.2.1 lack of verification for satisfactory past academic performance;
- 1.2.2 lack of verification for Manitoba residency;
- 1.2.3 lack of verification to ensure that applicants are not in default of previous federal or provincial student financial assistance.

In addition, we identified that:

- 1.2.4 CSL/MSL awards were being approved for students who had not repaid a bursary receivable that was in repayment status; and
- 1.2.5 certain applications were processed even though they were received after the established deadlines.

1.2.1 The Program Should Ensure That Applicants Have Satisfactorily Completed Their Most Recent Academic Year

For a student to be eligible for student financial assistance the student is required to have passed at least 60% of a full course-load during the last year they were enrolled in full-time post-secondary studies.

We found, in our sample of 100 students, that three of 66 students who declared passing at least 60% of a full course-load in their most recent academic year had, in fact, not met this condition. We determined this by obtaining their academic transcripts from the educational institutions. For the other 34 students in our sample, one student appropriately declared that she did not pass at least 60% of a full course-load during her last academic year and we noted that the Program took appropriate action. The remaining 33 students had no previous post-secondary academic history or had just graduated from high school.

For the three students noted above, we found that two of these students were not eligible for Canada and Manitoba student loans in the 1998/99 academic year because they had failed to satisfactorily complete 60% of a full course-load during their last two years of post-secondary study. These two students were awarded $10,221 (CSL of $7,377 and MSL of $2,844). While the third student was entitled to their Canada and Manitoba Student Loans, they should have been placed on probationary status for the 1998/99 academic year. We noted that this student successfully completed their 1998/99 academic year studies. As such, had probationary status been invoked, it would have subsequently been lifted. Nonetheless, by not putting such students on probation, the Program is at risk of providing additional loans to students that are failing to perform academically. Failure to complete their program of study would likely impact their ability to repay their loans.

We believe that these situations occurred because the Program did not require academic transcripts as evidence of a student's successful completion of at least 60% of a full course-load in their most recent year of full-time attendance. Exceptions to this practice are when the student declares that they did not pass at least 60% of a full course-load during their most recent year of post-secondary studies or when the student declares that they previously received an unsatisfactory progress letter from the Program.

In our review of practices followed by eight other provincial student financial assistance programs, two indicated that they required that students submit prior year's academic transcripts at the time of application.

Given the Program's reliance on self-declaration and the significant number of students that are in full-time attendance in a prior year, we believe the potential for approving loans that do not meet this eligibility requirement is significant.

R1 We recommend, for students who have taken previous post-secondary studies, that the Program obtain the student's most recent academic transcript as part of the application process:

a) to confirm satisfactory past academic performance, and
b) as discussed in section 1.3.4.2, to help detect overawards from course-load decreases and withdrawals.

DEPARTMENT RESPONSE

Student Aid will undertake system enhancements that will compare a student's current course and year of study to prior year's data. This will enable Student Aid to determine if the student is progressing in a satisfactory manner. In such cases, the system would produce an exception report for further analysis. Student Aid will review academic transcripts as part of the post-audit process. Student Aid will review the cost/benefit of reviewing each applicant's most recent academic transcript.

1.2.2 The Program Should Ensure That Applicants Are Residents Of Manitoba

To be eligible for student financial assistance from Manitoba an applicant must have resided for at least 12 consecutive months in Manitoba before the start of their study period not including time spent as a post-secondary student.

In our sample of 100 students, we found one student who did not meet the residency eligibility criteria. We detected this non-compliance with the eligibility criteria through examination of the student's 1998 income tax return. As a result, the student was not entitled to the award of $1,925 (CSL of $1,155 and MSL of $770).

We noted that the Program relies on a student's self-declaration for residency. We concur that it is reasonable to initially rely on self-declaration regarding residency, given that, in our sample of 100 students, the vast majority of them attended and graduated high school in Manitoba. Nonetheless, we believe a review of residency should at least occur as part of a post-audit review on a sample of loan recipients.

R2 We recommend that the Program obtain support for residency as part of a comprehensive post-audit process.

DEPARTMENT RESPONSE

Student Aid will establish procedures to check residency. Such procedures will check information from income tax returns and compare student's residence to parents' residence on a post-audit basis.

1.2.3 The Program Should Ensure Applicants Are Not In Default Of Previous Federal Or Provincial Student Financial Assistance

An eligibility requirement is that students not be in default of previous student financial assistance.

In this report, **bursary receivables (debts)** refer to overpayments of bursaries awarded to students that occur because of changes in student circumstances or incorrect application information.

For limited and fully guaranteed loans, we noted that a key control was that a default restriction was recorded on each student's file in the Program's information system when the Program processed a claim for loss on a defaulted MSL or when a bursary receivable was recorded by the Program. With a default restriction on file, an assessor would not process a new application until the defaulted MSL was repaid and in the case of bursary receivables, until they were either repaid or clearance was obtained from Program management (as discussed in section 1.2.4).

In examining Program records for CSL/MSL awards in 1998/99, we noted 33 instances of awards granted to students even though default restrictions were in place. We looked at six of these in detail and found that issuing these loans was appropriate. For students with CSL in default, the Program obtained HRDC clearance before a new CSL/MSL was awarded. For students with MSL in default, the Program only granted a new MSL once the student had repaid the past MSL.

With respect to risk loans with no Provincial guarantee, we noted that the Program did not receive information from the contracted financial institutions on debtors that defaulted on their loans. As a result, the Program was not in a position to determine whether applicants with prior risk loans in repayment status, were in default, and therefore not eligible for further assistance. In addition, Program management indicated that credit checks were not conducted on applicants with previous student debt. Credit checks would probably have identified that a student had defaulted on a previous student loan because the financial institution would likely have reported the default to a credit bureau.

Management indicated that the CSL program would advise them of debtors that had defaulted on a CSL. However, they also advised that the existence of a related MSL in default would not be pursued by the Program and a new MSL would be issued if clearance was received from HRDC to issue a new CSL.

R3 We recommend that the Program conduct credit checks on applicants with risk loans in repayment status.

DEPARTMENT RESPONSE

Student Aid agrees with this recommendation and will initiate system enhancements to check the repayment history on students with previous *loans in repayment status. Student Aid has requested, from financial institutions, detailed reports on students with risk loans. Student Aid will also check repayment history for students that reapply who have student loans with the Service Bureau.*

1.2.4 The Program Should Strengthen Its Policy On The Collection Of Bursary Receivables In Repayment Status For Students Receiving New CSL/MSL Awards

A Program policy is that students with bursary debts in repayment status (i.e., have not attended post-secondary school for more than six months) are ineligible to receive additional student financial assistance until the debt is repaid. However, while the policy also allows Program management discretion to grant additional assistance to the student, it does not specify the intended exceptions. In our view, the Program's existing policy allows too much flexibility for Program management. As a result, the Program did not treat students with such debts in a consistent manner, as illustrated below. Given the recent growth in bursary programs, we believe a stronger policy is needed.

Program officials advised that prior to and during the 1998/99 academic year, the Program followed the practice of allowing new loans to be awarded to students with bursary debts in repayment status even though they had not made the required payments. We noted that this practice was inconsistent with the Program's formal policy of requiring that MSLs in default be repaid prior to a student receiving any additional student financial assistance.

We were advised that, during the 1999/00 academic year, Program management had denied further assistance to certain students until their bursary debts were paid in full. In other cases, students with bursary debts in repayment status received additional assistance because:

- the bursary debt was a small amount, or
- the bursary debt was old and had been written off by the Program.

R4 We recommend that the Program strengthen its policy for students with bursary receivables in repayment status by identifying the exceptions for when further assistance is appropriate.

DEPARTMENT RESPONSE

Student Aid and the Service Bureau are reviewing policies on all bursary overawards in order to promote student success and improve financial responsibility.

1.2.5 The Program Should Better Communicate To Students The Risks In Submitting Late Applications

The 1998/99 application for Canada Student Loan and Manitoba Student Loan for full-time post-secondary students specifically indicated the deadline for submitting applications as being two months prior to the student's end of study period date. This deadline was also documented in the Program's 1998/99 policy manual and in the detailed guidebook provided to designated educational institutions. Nevertheless, in our sample of 100 awards, we found that the Program processed two applications that had been submitted one and four weeks after the established deadline.

Program management advised that they process late applications if time permits. However, this discretion is not clear in Program literature and may lead to inequitable treatment of students. We encourage the Program to process applications consistent with the deadline communicated in its application form or to clarify in their literature the risks of submitting an application after the established deadline date.

1.3 The Need To Strengthen The Loan Assessment Process

The Program follows Canada Student Loan policies for assessing an applicant's loan entitlement based on a student's financial need. This process requires that initially, the student's category be determined (e.g., single dependent, single independent, married, and single parent). Secondly, that the following elements be accurately assessed:

- the student's educational costs,
- the student's living allowance, and
- the resources available to the student.

Thirdly, that any changes in student circumstances trigger reassessment in a timely manner. Students are eligible for loans up to the amount of their calculated financial need provided this does not exceed the maximum of $275 per study week.

A detailed approach to assessing and reassessing financial need, consistently applied, is important because it ensures that all applicants are treated fairly and that the process for determining loan entitlements is equitable. Errors or process deficiencies could result in students being denied assistance or being offered a loan amount below what they would actually be entitled to. Alternatively, errors and process deficiencies could result in students being offered a loan amount in excess of what they would actually be entitled to. This latter situation is referred to as "overawards". We focused our audit procedures on looking for overawards because we viewed overawards as being of greater risk to the Program.

If an overaward is not recovered while the student is in full-time attendance, cashed overawards will result in increased financial exposure to the Province from:

- potentially higher loan default amounts for guaranteed loans;
- increased risk premium payments (for risk loans issued between January 2, 1995 and July 31, 2000;
- interest subsidy on the overaward amounts while students are in school; and possibly
- interest relief on the overaward amount once the loan is in repayment status.

Reassessments occur when the Program becomes aware of changes in student circumstances or when they receive more accurate information. As illustrated in Figure 10, for the 1998/99 academic year, Program records indicate that the Program's processes detected and recorded $1,011,603 in MSL overawards but, as of April 30, 2001, was only successful in recovering $190,740 (19%). For 1999/00 these figures are $1,279,903 and $339,627 (27%) respectively.

FIGURE 10

Overawards Detected and Recorded by the Program

		1998/99 Academic Year			1999/00 Academic Year		
		CSL	MSL	Total	CSL	MSL	Total
Overawards Calculated by the Program	#	1,239	1,148	2,387	1,569	1,516	3,085
	$	1,642,634	1,011,603	2,654,237	1,997,596	1,279,903	3,277,499
Overawards Repaid or Offset as at April 30, 2001	#	302	274	576	316	304	620
	$	317,268	190,740	508,008	303,301	339,627	642,928
Outstanding Overawards as at April 30, 2001	#	937	874	1,811	1,253	1,212	2,465
	$	1,325,366	820,863	2,146,229	1,694,295	940,276	2,634,571

We acknowledge that it would be impractical to avoid all situations that give rise to overawards, but given the balances involved, all practical avenues for minimizing or avoiding overawards should be pursued.

We found that the Program's application form outlined appropriate terms and conditions for students, spouses, and parents, in regards to the processing of an application, as detailed in Figure 11. We noted that these terms and conditions were similar to the terms and conditions used in other provinces.

We selected a random sample of 100 students that received CSL/MSL awards from the 1998/99 academic year from a total population of 9,986 awards to determine whether students ultimately received, through initial or subsequent reassessments, the correct amount of loan entitlement. We examined supporting documents such as income tax returns obtained from Canada Customs and Revenue Agency, confirmations of income earned from students' employers, and motor vehicle registration records. In addition, we interviewed officials from five other provincial student financial assistance programs regarding verification procedures for assessing student's financial need.

We found that, for our sample of 100 students, the Program accurately assessed the following costs in determining financial need:

- educational program costs including tuition, books and supplies, and compulsory fees;

FIGURE 11

Terms and Conditions Included on Application Form

- Authorization for the Program to obtain student's, spouse's, and parent's Income Tax Return information from Canada Customs and Revenue Agency.
- Declaration by student that he/she will use any assistance received only for payment of educational and living costs.
- That the student will notify the Program in writing of any change in address, academic status, marital status, or financial status for themselves and their spouse during the period covered by the application.
- That the student consents and authorizes the disclosure to the Program of any information held by various parties, including educational institutions, financial institutions, and the student's employers, for the purpose of verifying information pertaining to any aspect of the application.

- living allowance, which is based on student category and living situation;
- child care costs, if applicable; and
- other allowable and discretionary costs such as medical and return transportation costs.

However, in our sample of 100, we found additional overawards for 1998/99 totaling $92,873. We looked for the cause of these overawards and identified four concerns with respect to the processes for determining the amount of loan entitlement:

Application System Deficiencies

1.3.1 lack of verification of students claiming independent status because of being in the workforce for two years prior to their study period;
1.3.2 lack of verification of financial resources available to the student;
1.3.3 lack of controls over the granting of discretionary awards; and

Changes in Student Circumstances

1.3.4 lack of controls over the communication of changes in student resource and enrollment circumstances.

1.3.1 The Program Should Ensure Declarations Of Single Independent Status Are Valid

Ensuring the validity of a student's independent status is important because it can have a significant impact on the award by not requiring a parental contribution. The four conditions that define single independent status are noted in Figure 12.

FIGURE 12

Single independent status is granted to applicants who meet one of the following conditions:

1) out of high school for a minimum of four years;
2) in the work force for at least 12 months in a row on two or more occasions and were not full time students during that time;
3) applicants who were or are a permanent ward of a child and family services agency; and
4) applicants whose parents are deceased and have no legal guardian.

Source: Program Application Form

In our sample of 100 students, 48 were categorized as single independent students. Of these 48 students, one student was deemed to be independent because her parents were deceased and she had no legal guardian (condition #4). Forty students were deemed to be independent because they had been out of high school for a minimum of four years (condition #1). For these 41 students, we determined that independent status was appropriate.

The remaining seven students, from the 48 single independent students in our sample, declared independent status by virtue of being in the work force for at least 12 months in a row on two or more occasions and not being full-time students during that time (condition #2). With respect to the conferring of this condition, we identified two concerns as follows:

1.3.1.1 the meaning of the term "in the work force" is not clearly communicated, and
1.3.1.2 the lack of verification procedures.

1.3.1.1 The Program should better communicate to students its interpretation of the term "in the work force"

While Program guidelines provide criteria for determining independent status, the Program brochure only defines the criteria for a dependent student. A dependent student is defined as "being out of high school for less than four years or has not been working for at least two years". In contrast to the Program guidelines the Program brochure does not specifically use the expression "in the work force", but rather, only uses "working". Program officials indicated that when processing applications, "in the work force" was interpreted to mean either working or actively looking for work. We noted that this is in agreement with the definition for "in the labour force" (used synonymously with "in the work force") found in the Canada Student Loan policy manual. Nonetheless, in terms of determining a student's independent status, interpreting "in the work force", as including looking for work would be, in our view, inconsistent with how most individuals would interpret independent status.

In our view, the definition in the Program brochure likely dissuaded students who were actively looking for work from claiming single independent status. This may have resulted in the inequitable treatment of students.

We also noted a lack of guidance for students working part-time. It is not specified in the Program brochure whether working means working full-time or part-time. However, in the Canada Student Loan policy manual the condition for independent status is defined as a student being in the labour force full-time for two years. This definition could be interpreted to mean that the student must be working full-time to meet this condition. We noted an apparent contradiction to the definition of "in the labour force".

R5 We recommend that the Program amend their application form and brochure to include the 'in practice' definition of "in the work force".

DEPARTMENT RESPONSE

Student Aid agrees with this recommendation and will make the necessary changes.

1.3.1.2 The Program should verify declarations of independent status

We noted that applicants who declare on the application that they have been in the work force for at least 12 months in a row on two or more occasions are not required to provide proof that they met this condition. In addition, we found that verification of this declaration was not part of the Program's application processing procedures. Because of this lack of documentation, we could not determine the appropriateness of independent status declared by six of the seven students in our sample who made such a declaration. For one of the seven students, we were able to determine that while the student had been out of high school for close to three years at the start of their study date, the student had attended university full-time for two fall/winter sessions during this time period. We were able to determine this by examining the student's academic transcript. In this case, the Program inappropriately granted independent status.

In our interviews with officials from student financial assistance programs in five other provinces, one of the provinces indicated that it required students to provide supporting documentation of being in the labour force for at least 12 months in a row on two or more occasions. Two of the other provinces verified this condition on a post-audit basis.

Students categorized as single independent students are not assessed a parental contribution. If independent status is improperly conferred, students may receive a larger loan than they are entitled to because a parental contribution would not have been considered. This would result in increased interest subsidy costs to the Program and increased financial exposure to the Program because all loans approved on or after August 1, 2000 are 100% guaranteed.

R6 We recommend that the Program include the verification of single independent status as part of a comprehensive post-audit process.

DEPARTMENT RESPONSE

Student Aid agrees with this recommendation and will develop system enhancements to verify single independent status indicators such as age, academic history, and high school graduation date.

1.3.2 The Program Should Verify Student's Financial Resources

In our random sample of 100 students from the 1998/99 academic year, we found 41 instances where the student's financial resources had not been accurately verified. These instances resulted in 34 overawards ranging from $45 to $10,730. As summarized in Figure 13, the total of the overawards was $85,333 representing approximately 15% of the total loan awards ($582,258) distributed to the 100 students in our sample. The Province's portion of these overawards amounts to $33,835. Six of the overawards identified by our audit are below the Program's recovery threshold of $417. Eight students that received overawards should not have received any award.

Extrapolating the results from our statistically valid sample to the overall 1998/99 loan population, we are 95% confident that the most likely amount of overawards issued in 1998/99, as a result of insufficient verification of student financial resources, is approximately $8,521,000 (at least $5,180,000 but no more than $12,379,000) from a total loan population of $56,650,000. Manitoba's portion of the most likely amount of overawards is approximately $3,408,000, 40% of $8,521,000.

FIGURE 13

Overawards Identified by the OAG Based on a Sample of 100 Student Loans (1998/99 Academic Year)									
Overawards			Overawards Caused by Under-Reporting of:						
$ Range	Total		Income		Vehicle Assets		Financial Assets		
	#	$	#	$	#	$	#	$	
0 - 417	6	1,287	6	1,287	-	-	-	-	
418 - 2,000	13	18,026	11	15,679	1	1,787	1	560	
2,001 - 5,000	12	43,195	10	35,006	1	3,862	1	4,327	
Over 5,000	3	22,825	2	13,325	1	9,500	-	-	
Total	**34**	**85,333**	**29**	**65,297**	**3**	**15,149**	**2**	**4,887**	

Overawards of $85,333 extrapolated over population of loans (Note 1)		
Lower Error Limit	Most Likely Error	Upper Error Limit
$5,180,160	$8,521,326	$12,379,358

Note 1: Based on a 95% confidence level

Individual overawards in our sample occurred because the Program did not verify the accuracy of one or more of the following factors:

1.3.2.1 student's and/or spouse's income;
1.3.2.2 student's vehicles; and
1.3.2.3 student's financial assets.

In addition, we also identified:

1.3.2.4 an increased risk regarding the completeness and accuracy of parental income for single dependent students; and
1.3.2.5 an opportunity to limit the amount of loans awarded based on the student's perceived need.

1.3.2.1 The Program should verify the completeness and accuracy of incomes

Canada Student Loan policy states that income earned by students and their spouses during the pre-study and study periods is to be assessed as a resource in calculating financial need. Normally, the pre-study period is the four months prior to the start of the student's classes.

For the 100 students in our sample, we compared the students' and their spouses' pre-study and study period incomes, as assessed by the Program, to their 1998 and 1999 income tax returns and looked for significant variances. We also reviewed pertinent documentation in the student's application file and, where possible, confirmed pre-study and study period income with employers. We found 29 awards where discrepancies existed between what the Program assessed as pre-study and study period income and what we estimated as the student's pre-study and study period income. These discrepancies resulted in total overawards of approximately $65,000.

A major reason for why these discrepancies occurred is that the Program had no process for verifying pre-study and study period income estimates made by students on their applications. Such processes could include comparing income to income tax returns, requesting supporting documentation from students for pre-study period income, requesting updated study period income reports from students and conducting post-audits to detect cases of under-reporting.

Starting in the 2000/01 academic year, the Program began requesting a copy of the spouse's pay stub prior to the second disbursement of the loan in order to verify the spouse's income level. In addition, the Program implemented post-audit procedures on a random sample of 5% of students (140) that were eligible for a Manitoba Bursary; CSL/MSL application forms are used to determine Manitoba Bursary eligibility. The post-audit procedures included confirming employment income with the employer for the student and spouse for both the pre-study and study period. We commend the Program for strengthening their processes in this way, but we believe that more enhancements are needed.

Program officials from five other provinces indicated that they conducted income verification procedures as follows:

- Three of these provinces stated that they annually compared income reported by students on their application to data electronically retrieved from Canada Customs and Revenue Agency and any significant variances were subject to a post-audit on a priority basis.
- Two provinces stated that they required students to report actual pre-study period income and to update estimated study period income shortly after the start of the study period. One of these provinces required documentation from the student's employer to support the pre-study period earnings.

R7 We recommend that the Program further strengthen their application review processes for verifying pre-study period income and estimated study period income for all students as well as including pertinent procedures for verifying actual incomes in a comprehensive post-audit process.

DEPARTMENT RESPONSE

Student Aid has put in place requirements for employer verified actual pre-study and estimated study period incomes prior to the release of the student's Manitoba Student Loan (MSL) disbursement. This was implemented for the 2001/02 program year. As part of the current post-audit process, actual study period incomes are verified.

R8 We recommend that the Program investigate the costs and benefits of establishing electronic data links with Canada Customs and Revenue Agency to verify income earned.

DEPARTMENT RESPONSE

Student Aid agrees with this recommendation and is conducting a cost/benefit analysis to implement an electronic data link with Canada Customs and Revenue Agency.

1.3.2.2 The Program should verify the completeness and accuracy of vehicle assets

Canada Student Loan policy states that students and spouses will be assessed the market value of all vehicles that they own, lease, or primarily operate, less a deduction of $5,000. This includes cars, trucks, motorcycles, boats, and recreational vehicles.

For the 100 students in our sample, 26 students reported vehicles on their application forms, 19 for which they were the registered owner. We confirmed the type and year of these vehicles with Driver and Vehicle Licensing Division of the Department of Transportation and Government Services and found no discrepancies. For the seven instances where the reported vehicle was not registered in the student's name or in their spouses, we did not conduct any further audit work because we believed there was a low risk of the student misrepresenting the type and estimated value of the vehicle (given their willingness to declare the use of the vehicle).

For the 19 reported and confirmed vehicles, we also compared the market value of the car as estimated by the student to the value per the Sanford Evans Gold Book of used car prices. We found that 18 of the 19 vehicles had been fairly valued. Of note is that these 18 vehicles had reported values of $5,000 or less; $5,000 being the Program's exemption level for vehicle assets. Our sample included one vehicle with a student estimated value of $15,000. We found that the vehicle actually had a Gold Book value of $18,185. Program officials advised that they would typically use the estimated value of the vehicle as provided by the student unless it was obvious to the assessor that the student had underestimated the value of the vehicle. If this were the case, then the assessor would use the Gold Book value to determine the value of the vehicle. We found no evidence of this procedure in any of our sample files. Given the significant risk that vehicles will be under-valued, we believe the Program should check all reported vehicle values greater than $5,000 to the Gold Book.

For the 74 students in our sample that did not report vehicles on their application form, we inquired of the Department of Transportation and Government Services whether a vehicle was registered in the name of the student or their spouse as of the start of the pre-study period or as of the start or end dates of the study period. We found 11 instances where students had a vehicle registered in their name but had not declared so on their application form. Of these 11, three had a vehicle with a Gold Book value in excess of $5,000. The failure to reflect the value of these assets in the needs assessment calculation resulted in overawards for these students totaling $15,149.

These situations occurred because the Program did not inquire of the Department of Transportation and Government Services whether vehicles were registered in the student's or spouse's name.

As noted previously, for the 2000/01 academic year, Program staff conducted post-audits on 140 students eligible for a Manitoba Bursary. Post-audit procedures included verifying vehicle information with the Department of Transportation and Government Services and obtaining the value of any vehicles from the Gold Book.

In our interviews with officials from five other provincial student financial assistance programs, we noted that one province indicated that they verified vehicle assets, at the time of application processing, through an electronic data link to the province's Ministry of Transport. Three other provinces also indicated that they had on-line access to either their motor vehicles branch or public insurance corporation's vehicle registration records but that these records were accessed for a sample of student awards on a post-audit basis.

R9 We recommend that the Program inquire of the existence of vehicle assets with the Department of Transportation and Government Services for all students applying for assistance. Establishing an electronic data link to the Department of Transportation and Government Services would likely be an efficient solution.

DEPARTMENT RESPONSE

Student Aid agrees with this recommendation and is conducting a cost/benefit analysis to implement an electronic data link with the Department of Transportation and Government Services.

R10 We recommend that the Program determine the Gold Book value of all reported vehicles with estimated values greater than $5,000.

DEPARTMENT RESPONSE

Student Aid agrees with this recommendation and is conducting a cost/benefit analysis to obtain the Gold Book, or other appropriate vehicle value guide, in electronic format.

1.3.2.3 The Program should verify the accuracy of reported financial assets and gain greater assurance regarding completeness

Canada Student Loan policy states that students are expected to draw on their financial assets to meet the assessed costs of post-secondary education. Therefore, financial assets registered in a student's name and in their spouse's name are assessed as resources when determining the financial need of the student. Provinces have the option of assessing assets at the start of the pre-study period or assessing assets both before and after the pre-study period, taking into account any changes in asset values during the period. Manitoba assesses assets at the start of the pre-study period. The policy also states that the Program must assess the full net worth of all Registered Retirement Savings Plans, not mandatorily locked in until retirement, less a deduction of $2,000 for each year that the student has been out of secondary school. All other financial assets are assessed at their full net worth without any deduction.

For the 100 students in our sample, we reviewed the students' and spouses' 1998 income tax returns for the existence of investment income. For any student or spouse that reported investment income on their income tax return, we calculated an imputed asset value based upon an assumed 5% rate of return. We used a 5% rate of return because we believed it was reasonable given 1998 interest rates and because we assumed most students owned interest-bearing investments rather than equity investments. We then compared the calculated imputed asset value to the asset value as reported by the student on their application.

We found three instances where our imputed asset values exceeded the value of assets reported on the application forms. As a result, two of these three students received overawards in 1998/99 totaling $4,887. The third student did not receive an overaward because the student's re-assessed need was still higher than the award received. This was because the student's award was limited by the CSL/MSL maximum of $275 per study week.

These situations occurred because the Program's application review process did not include the verification of financial asset values. In addition, students were not required to submit financial records to support the value of assets reported on their application. We acknowledge that verifying the accuracy and completeness of a student's financial assets when applications are being processed is difficult. There is no practical way for the Program to be assured that a student has declared all financial assets owned by themselves and their spouse. However, requiring students to submit income tax returns, bank statements, and other financial records along with their application would, in our view, convey a message of rigorous requirements by the Program.

We note that in 1997/98, the Program conducted reasonableness tests on the financial assets reported on all applications by calculating the imputed value of financial assets based on investment income reported by student's and their spouse's on prior year's income tax returns. Management advised that this practice was discontinued in 1998/99 to improve application processing efficiency. As noted previously, for the 2000/01 academic year Program staff conducted post-audits on 140 students eligible for a Manitoba Bursary. The post-audit procedures included reviewing bank statements and verifying other financial assets to students' and spouses' financial records. In addition, Program staff requested copies of the students' and spouses' 1999 income tax returns from Canada Customs and Revenue Agency and reviewed these for existence of any financial assets.

In our interviews with program officials from five other provinces, we noted that none of the provinces attempted to verify financial assets when processing applications. However, three of these provinces indicated that they conducted post-audits which included the review of income tax returns for the existence of investment income and compared the amount of investment income to the value, if any, of financial assets reported on the student's application.

R11 We recommend that the Program conduct, as part of a comprehensive post-audit process, procedures to assess the reasonableness of a student's reported financial assets using information from the student's and spouse's income tax returns, bank statements and other financial records.

DEPARTMENT RESPONSE

Student Aid agrees with this recommendation and is conducting a cost/benefit analysis to implement an electronic data link with Canada Customs and Revenue Agency. This may also involve expanding the application to ask the applicant to report certain information from their income tax returns which could be used to trigger exception reports for follow-up requests and verification.

1.3.2.4 The Program should verify the completeness and accuracy of parental income

In our random sample of 100 students, 36 were single dependent students. Canada Student Loan policy states that, parents of single dependent students are expected to contribute to their child's education based on their income and family size. Parents' total gross income from the prior year minus income taxes, Canada Pension Plan contributions, and Employment Insurance contributions is used to calculate parents' disposable income. A moderate standard of living allowance based on family size, as defined by the Canada Student Loans Program, is subtracted from the parents' disposable income resulting in parents' discretionary income. Parents' discretionary income is then used to calculate a weekly parental contribution and is divided by the number of post-secondary dependents in the family. To arrive at the assessed parental contribution the weekly parental contribution is multiplied by the number of weeks in the student's program of study.

For the 1998/99 academic year the Program required dependent students to submit a copy of their parents' 1997 income tax return. We found that the Program accurately assessed the parental contribution level for all 36 dependent students in our sample. Beginning with the 1999/00 academic year, however, the Program stopped requiring copies of the parent's prior year income tax return. To determine the impact of this change in the Program's process, we selected a random sample of 100 dependent students from the 1999/00 academic year who received student loans totaling $541,982. We compared the parents' income as reported on the loan application to their 1998 income tax return obtained from Canada Customs and Revenue Agency (CCRA).

We found that eight students received overawards because the calculated parental contribution was lower than it should have been. It must be noted that we limited our audit of these dependent student awards to parental contributions and, as such, we did not verify the student's income, assets, and costs. The total amount of the overawards for these eight students was $8,769. The Province's portion of these overawards is $3,508. The total loan amount for these eight students was $37,192. As illustrated in Figure 14, the overawards ranged from $312 to $2,632, with two of the overawards being below the Program's threshold for recovery of $417. In our view, these results indicate that the risks associated with not requesting and using income tax information are likely at a level that requires management attention.

FIGURE 14

Overawards Identified by the OAG Based on a Sample of 100 Student Loans
(1999/00 Academic Year)

Overawards			Overawards Caused by:			
$ Range	Total		Not Requiring Parent's Income Tax Returns		Use of Parent's Estimated Income for the Current Year	
	#	$	#	$	#	$
0 - 417	2	639	1	312	1	327
418 - 2,000	4	3,256	2	1,218	2	2,038
2,001 - 5,000	2	4,874	1	2,632	1	2,242
Total	**8**	**8,769**	**4**	**4,162**	**4**	**4,607**

Four of the eight overawards totaling $4,162 are a direct result of the Program's revised policy of not requiring that parents of dependent students submit their prior year's income tax return with the student's application. Because this is the first year since the Program changed their policy, we were not able to observe any patterns in the accuracy of reported parental income.

The four other overawards totaling $4,607 occurred in cases where the parents requested a review of their assessed parental contribution because they claimed to have experienced a reduction in their combined total income in 1999. In our sample there were seven such cases. For these cases, we reviewed the supporting documentation provided by the parents and the parent's 1998 and 1999 income tax returns. Overawards occurred because Program staff did not sufficiently review supporting documentation or the Program did not follow-up these cases and request copies of parents' income tax returns when they became available.

- In one instance, the pay stubs submitted by the parents clearly showed that one of the parents was earning a significantly higher income than what was recorded on the Parents' Assets and Parents' Cash Flow form submitted by the parents. In addition, the pay stub showed that this parent would earn at least as much in 1999 as in 1998. The Program either erred in their analysis or neglected to review the submitted pay stubs because the parental contribution was based on the information included on the Parents' Assets and Parents' Cash Flow form.

- In two instances, the supporting documentation submitted by the parents estimated their total income for 1999 to be significantly lower than what we determined their actual income to be. Program assessment staff relied on the parents to inform them of any changes in their total income and did not request that copies of the parents' 1999 income tax returns be submitted. In our view, the Program is not in compliance with CSL policy, which states that in cases where estimated income has been used in calculating parental contribution, such cases should be flagged for audit and verification.

- In the fourth instance, the Program used the estimated 1999 income for the parent that had a significant reduction in income for 1999. For the other parent, the Program used the 1998 income as reported on the student's application form, which was lower than the 1999 income. However, if the current year's estimated income is to be used in calculating parental contribution, then it must be used for both parents, not only the parent who has had their income reduced.

- Furthermore, we noted that for two of these four cases, in the 2000/01 academic year the parents again appealed to the Program that they were unable to provide the assessed parental contribution based on their 1999 incomes. As such, in 2000, information was submitted to the Program by these parents that indicated the estimated 1999 income figures used for the 1999/00 awards were too low. Program staff did not reassess the 1999/00 parental contributions using this new information. Officials advised us that this is their typical practice. As a result, overawards will go undetected if estimated parental income is understated.

As noted previously, for the 2000/01 academic year, Program staff conducted post-audits on 140 students eligible for a Manitoba Bursary. The post-audit procedures included verifying parental income for dependent students to 1999 income tax returns obtained from CCRA.

In our interviews with program officials from five other provinces, two other provinces indicated that they verified parental incomes for all dependent students by requesting that a copy of the parent's income tax return be submitted with the application or through an electronic data link with CCRA. In addition, one other province indicated that they verified parental income for a sample of dependent students on a post-audit basis.

R12 We recommend that the Program monitor, through the post-audit process, the accuracy of reported parental income, and revisit, when warranted, the decision to not require the submission of parental income tax returns.

DEPARTMENT RESPONSE

Student Aid agrees with this recommendation and is conducting a cost/benefit analysis to implement an electronic data link with Canada Customs and Revenue Agency. This would enable Student Aid to verify parental income for each dependent applicant.

R13 When using estimated current year parental incomes to determine parental contributions, we recommend that the Program obtain current year income tax returns to substantiate or revise estimated current year parental incomes. Parental contributions should then be reassessed accordingly.

DEPARTMENT RESPONSE

Student Aid is currently exploring a process as part of the review and appeal procedures to require verification of current year parental incomes.

1.3.2.5 The Program should limit the amount of loans awarded based on the student's perceived need

It is interesting to note that, for the 1998/99 academic year, the Program asked students how much assistance they needed for the academic session. The student then received the lesser of the amount calculated by the Program based on the Program's financial need formula or the amount requested by the student.

However, Program management indicated that many students who had requested less assistance than their original assessed financial need did not understand the question on the application and asked for a reassessment. Ultimately these students received the full amount of the Program's original assessed financial need. In reaction to student difficulties in interpreting the question, subsequent to the 1998/99 academic year, the Program removed the question from the application form.

We believe that the Program had identified a creative way of minimizing award amounts and potential overawards and may have acted too quickly in removing the request rather than refining the question. In our sample of 100 students from the 1998/99 academic year, 19 requested a lesser amount of assistance by $88,153 than their assessed need. Two of these 19 students received overawards that we detected in our audit work. As a result, the 34 overawards detected in our sample of 100 from the 1998/99 academic year would have been higher by a total of $1,001 if students had been awarded their assessed financial need.

R14 We recommend that the Program reevaluate the cost/benefit of including a student's estimate of financial need in the award assessment process.

DEPARTMENT RESPONSE

Student Aid will undertake this analysis. However, it should be noted that prior to the introduction of the Manitoba Bursary and the Canada Millennium Scholarship Bursary some students faced onerous debt loads. In order to curtail these debts some may have chosen to live at subsistence levels. These new bursaries help limit student loan debt.

1.3.3 The Program Should Strengthen Controls Over The Granting Of Discretionary Awards

Program guidelines indicate that discretionary awards, to a maximum of $3,333 (CSL - $2,000, MSL - $1,333), may be granted on a one-time only basis to address a student's extraordinary financial needs arising from cash flow problems, including the inability to accumulate savings equal to the pre-study period contribution expected by the Program.

The Program began issuing discretionary awards in 1995. In the 1999/00 academic year, the total value of the 232 CSL/MSL discretionary awards was $570,020. As shown in Figure 15, 114 students with an original assessed financial need of zero received discretionary awards totaling $301,000.

FIGURE 15

Discretionary Awards - 1999/00 Academic Year

Original Assessed Financial Need	Number of Awards	$(000)
Equal to Zero	114	301
Greater than Zero	118	269
Total	232	570

Ensuring the adequacy of controls over the approval of discretionary awards is important because the granting of inappropriate discretionary awards would result in:

- inequities in access to student awards;
- increased costs to the Program from interest subsidies, additional risk premium, interest relief; and

- increased financial exposure if the loan is guaranteed on a limited or full basis.

We examined a sample of seven discretionary award files and found that the Program:

1.3.3.1 lacked detailed guidance regarding the determination of discretionary financial need based on student's cash flow;
1.3.3.2 did not obtain supporting documentation for living costs as required by Program policy; and
1.3.3.3 did not require management approval of discretionary awards.

1.3.3.1 The Program should expand its policies and procedures regarding the determination of financial need based on student's cash flow

The Program's policy manual states that *"for situations that are unique to a province, or to a particular group of applicants, which are not covered by these criteria (financial needs assessment criteria) and which affect a small percentage of the applicants in the province, the appropriate authority may exercise discretion on a case-by-case basis, using the principles of fairness and reasonableness"*. The manual states that these situations could include, among other things:

- high living costs such as shelter and food (e.g., Northern allowance up to amount claimed on the income tax return),
- alimony/maintenance payments greater than standard dependents allowance,
- house repairs,
- funeral costs, and
- legal expenses.

The policy also allows discretionary awards in situations where the parents claim an inability to meet their expected contributions because of cash flow problems.

However, Program management advised that senior assessment staff consider the following factors when reviewing the student's situation:

- age of student,
- number of dependents,
- length of academic program,
- participation in Employment Insurance sponsored training program, and
- tuition expense and whether tuition expense greatly exceeds original assessed loan amount.

We found that the discretionary awards for each of the seven students in our sample were not based on costs as specifically identified in the policy manual. Instead discretionary awards were granted because of:

- the student participating in an Employment Insurance sponsored training program and being an older student or having significant tuition expenses (five students, for total discretionary awards of $12,427);

- parents not being able to provide the calculated parental contribution due to reported cash flow difficulties and not being required to access assets, contrary to the Program policy for discretionary loans (one student for a discretionary award of 3,333); and

- parents appealing to the Program that their child required additional funds to be able to attend school, not supported by a required cash flow statement (one student for a discretionary award of $1,684).

We recognize that it would not be possible to predict every unique situation that could warrant a discretionary award. Nonetheless, in our view, the stated policy and oral directive allow assessment staff excessive discretion in determining whether a discretionary award should be approved. To ensure policy intent is interpreted consistently, we believe clearer and more specific policy direction is required.

R15 We recommend that the Program develop more specific policies and procedures regarding the financial basis for granting discretionary awards.

DEPARTMENT RESPONSE

Student Aid agrees and will examine policies and procedures for granting discretionary awards.

1.3.3.2 The Program should obtain supporting documentation for living costs claimed on student and parental cash flows

We found a lack of supporting documentation for living costs that were claimed by students in five of the seven discretionary awards that we examined. In four of these five instances the student or the parents did not provide any documentation to support their average monthly payments for living costs incurred. While the Program usually requests supporting documentation, officials advised that they would review and process a student's claim for discretionary assistance even though the supporting documentation requested of students or parents was not received. As a result, we believe that discretionary awards may be distributed to students without valid cash flow needs.

R16 We recommend that the Program obtain and review supporting documentation for student and parents' living costs prior to granting a student a discretionary award.

DEPARTMENT RESPONSE

Student Aid agrees and will implement this recommendation as part of the existing review and appeal process (required prior to granting a student a discretionary award).

1.3.3.3 The Program should ensure that higher risk discretionary awards are reviewed and approved by Program management

We found that a Program manager approved only one of the seven discretionary awards we examined. Senior assessors approved the other six discretionary awards. Program management advised that authority to approve discretionary awards had been delegated to three senior assessors and two supervisors of assessment. We are concerned about this delegation of authority because of the considerable amount of judgement required in determining discretionary awards. Program management advised that they believe the delegation of authority is appropriate because discretionary awards are granted on a one-time only basis and the amount is limited to a maximum of $3,333. However, as discussed earlier, the six awards approved by assessors were for situations not specifically considered in the policy manual.

We believe that situations that do not meet the specific criteria for discretionary awards set forth in policy, should be considered higher risk and referred to Program management for review and approval. Limiting delegation of authority in this manner would help ensure that award rationale and the supporting documentation are consistent with policy intent.

In the 2000/01 academic year, staff from the Employment and Training Services branch (the Branch) of the Department of Education, Training and Youth began processing and approving discretionary award requests for students receiving Employment Insurance Skills Loans and Grants. The Program provided a reference manual for discretionary awards to the Branch and conducted a training session. We noted, however, that there was no approved delegation of authority document to authorize Branch staff to approve discretionary awards.

R17 We recommend that Program management approve all high risk discretionary awards.

DEPARTMENT RESPONSE

Student Aid will require that management approval of high-risk discretionary awards be included in the student's file.

R18 We recommend that a delegation of authority document be prepared regarding the approval of discretionary awards by the Employment and Training Services Branch and be approved by Department management, but that this delegation exclude high risk discretionary awards.

DEPARTMENT RESPONSE

Student Aid will ensure that a formal delegation of authority by the Assistant Deputy Minister will be established to authorize Employment and Training Services (ETS) senior staff to approve discretionary awards and ETS management to approve high risk discretionary awards.

1.3.4 The Program Should Strengthen Controls Over Communication Of Changes In Student Resources And Enrollment That Can Result In Overawards

As discussed earlier, overawards can result at the application processing stage from system weaknesses. However, changes in student circumstances that occur subsequent to the approval of a loan can also result in overawards. Such changes include:

- an increase in a student's or spouse's resources,
- changes in enrollment status, or
- a decrease in student's costs.

As declared on the loan application, a student agrees to inform the Program immediately of changes to their situation as reflected in the application for the period covered by the application.

In addition, when a student signs a loan authorization document they are agreeing to certain terms and conditions. Key terms and conditions include:

- that the student must immediately notify the financial institution and the Program, in writing, of any change in name or address, or any change to their status as a full-time student; and
- that the student must advise the Program of any changes to their academic, marital, or financial situation.

Despite the above-noted student responsibilities, the Program places greater reliance on educational institutions to advise them of significant changes to enrollment status. These expectations are reflected in a detailed guidebook produced on an annual basis. We believe this is a reasonable approach.

When the Program learns of a change in a student's circumstances, they will reassess the student's financial need for the applicable period of studies. If it is determined that the student has received an overaward, then the student is requested to repay the overaward immediately. If repayment does not occur, the amount of the overaward is deducted from any future Canada Student Loan and Manitoba Student Loan awards. The more quickly the Program is notified of changed student circumstances, the greater the possibility of avoiding an overaward situation.

For our sample of 100 students from the 1998/99 academic year, the Program was informed of 13 changes to student circumstances as follows:

- four students had significant increases in resources;
- eight students withdrew completely or dropped to less than 60% of a full course-load; and
- one student had a course-load decrease, but not below 60%.

The Program reassessed these students which resulted in 11 students with overawards totaling $22,501. As illustrated in Figure 16, appropriate actions were taken to recover the 1998/99 overawards from the 11 students.

FIGURE 16

Program Actions to Recover 1998/99 Overawards for the 11 Students in our Sample Where Program Reassessments Resulted in Overawards

No future loans to offset but student still in school	Overaward partially offset but student still in school	Overaward offset against subsequent loan	Loan including overaward in repayment status
2	1	3	5

For the eight students that withdrew completely, we found that the Program recalculated and recorded seven reassessments within an average of 10 days of being notified by the educational institution. For one student, the Program took one and a half months to recalculate and record the reassessment.

We noted that the Program had not set performance targets for recalculating and recording reassessments for student withdrawals. Program officials indicated that reassessments are done depending on staff workloads. During the Program's busy period, the summer months, assessing new applications takes priority over reassessments. The one withdrawal that took longer to recalculate and record occurred during the Program's busy period.

We identified a number of situations where the Program had not been notified, or was not advised in a timely manner, of changes in student circumstances. These situations involve either changes in student resources or changes in enrollment status.

Changes in Student Resources

Three students received scholarships from the universities they were attending in Manitoba. Program officials were unable to confirm for us the date at which these scholarships were granted to the students. They advised, however, that the universities only notified the Program of the scholarships after the students had received their second loan disbursement. This resulted in three Program identified overawards totaling $8,196.

We found four other instances of students that received scholarships/bursaries from the Manitoba public educational institution they were attending but had not been reassessed. Officials could not determine whether their failure to reassess the students occurred because they had not been advised by the educational institution or because of an oversight. The resulting overawards are included in our sample results discussed in section 1.3.2.1. Because other factors influenced the occurrence of the overaward, in some of these instances we were unable to attribute a specific overaward amount to the scholarship income.

It is important to note that the timing with which public educational institutions grant scholarships within the academic year has a significant impact on the Program's ability to avoid issuing overawards. For example, if scholarships are only granted toward the end of the academic year, these scholarships cannot be factored into the Program's initial or subsequent assessments of a student's financial need prior to the final disbursement of the loan. In such cases overawards may be inevitable. Also of note is that scholarship/bursary income could be readily confirmed with the source by electronic data link.

R19 We recommend that the Program engage Manitoba public universities and colleges in seeking better coordination and information sharing processes regarding scholarships/bursaries. Such processes could include electronic data links.

DEPARTMENT RESPONSE

Student Aid will explore this recommendation. The 2002/03 scholarship exemption increase to $3,000 for MSL will reduce the number of overawards resulting from unreported scholarships.

Changes in Enrollment Status

We identified two problems with respect to the timely receipt of information on changes in enrollment status as follows:

1.3.4.1 the Program is not always informed on a timely basis of students who have withdrawn completely from their program of study or dropped below 60% of a full course-load; and

1.3.4.2 the Program is not always informed of students decreasing their course-load.

In addition, we also identified:

1.3.4.3 for reassessments due to withdrawals, the $275 per study week maximum was not applied.

As illustrated in Figure 17, the problems discussed in 1.3.4.1 and 1.3.4.2 resulted in total overawards of $7,540 with the most likely amount of similarly occurring overawards in the loan population, using a 95% confidence level, being approximately $753,000.

FIGURE 17

Analysis of Overawards Due to Changes in Enrollment Status

Report Section	Overawards in Sample	
	#	$
1.3.4.1	2	4,758
1.3.4.2	4	2,782
Total	6	7,540

Overawards of $7,540 extrapolated over population of loans (Note 1)

Lower Error Limit	Most Likely Error	Upper Error Limit
$133,159	$752,944	$1,788,872

Note 1: Based on a 95% confidence level

1.3.4.1 The Program should ensure that it is informed, in a timely manner, of students who have withdrawn from their program of study

The Program provides a detailed guidebook, on an annual basis, to designated educational institutions. The guidebook requests that institutions inform the Program when a student withdraws or drops below 60% of a full course-load. However, the expected notification timeframes are not defined.

From our sample of 100 students from the 1998/99 academic year, as discussed earlier in section 1.3.4, eight students had withdrawn completely from their program of study or decreased their course-load below 60%. For three of these students, we found that the Program was notified within one month by the applicable educational institution. However, for the other five students, the Program was only notified within 35 to 81 days. Regardless of these lengthy timeframes, we noted that other processes ensured that the resulting overawards were minimized. Four of these five withdrawals were prior to the second disbursement of the CSL/MSL loan. While the Program was not aware, prior to the second disbursement, of three of these withdrawals, the educational institution did not release the second disbursement. As a result, the overawards were minimized.

In our remaining sample of 92 students we found two instances where the Program had not been notified and therefore was not aware of one student completely withdrawing from their program of study and of another student decreasing their course-load below 60%. This resulted in overawards of $4,758 with the MSL portion being $1,903. In addition to the occurrence of an overaward, the failure to be notified of withdrawals in a timely manner will result in the payment of interest subsidy for which a student would no longer be eligible. For the two instances noted above, interest subsidies were inappropriately incurred for seven months and one month prior to the loans going into repayment status.

We noted that three Canadian provinces indicated that they imposed reporting timeframes for withdrawals of immediate, 14 days and 30 days. These specific timeframes are all defined in their memorandums of understanding or performance agreements with the educational institutions.

R20 We recommend that the Program establish and advise designated educational institutions of reporting timeline expectations for student withdrawals or students dropping below 60% of a full course-load.

DEPARTMENT RESPONSE

Student Aid agrees with this recommendation and will include this in the Memorandum of Understandings (MOUs) negotiated with designated educational institutions as part of the new designation policy.

1.3.4.2 The Program should ensure that it is informed of students who have decreased their course-load after second disbursement

The Program's policy for students that reduce course-load, but not below 60% of a full course-load, is to pro-rate the cost of tuition, books and supplies regardless of when the students reduced their course-loads. To prevent the occurrence of overawards, the Program needs to be aware, in a timely manner, of all students that decrease their course-load prior to the second loan disbursement. We note that course-load reductions are typically only possible in a university environment or in certain college programs.

In order to detect possible overaward situations in a timely manner, the Program also needs to be aware of all students that reduce their course-load after the second loan disbursement.

In our sample of 100 students, we found that six students had not notified the Program that they had decreased their course-loads. Five of these students reduced their course-load after the second loan disbursement. While educational institutions are required to confirm enrollment on the loan authorization documents for both first and second disbursements, they are not required to inform the Program of subsequent course-load decreases.

For the six students that decreased their course-load, we determined that four had received overawards totaling $2,782, of which $1,113 was Manitoba's portion. The overawards ranged between $409 and $1,375 with an average of $696. Three of these four students returned to post-secondary school in the 1999/00 academic year and received student financial assistance. As such, their overawards could have been deducted from their 1999/00 award had the Program known about them.

As recommended in section 1.2.1, obtaining and analyzing academic transcripts, as part of the loan application process, would also help to detect overawards from course-load decreases and from complete withdrawals (as discussed in 1.3.4.1). Alternatively, requiring a third enrollment confirmation for university students would likely be a more efficient approach for identifying overawards and would result in more timely notification to students.

1.3.4.3 The Program should ensure loan entitlements for students who withdraw from their program of study do not exceed the $275 per study week maximum

In reassessing loan entitlement for a student that has withdrawn completely from their program of study or has dropped below 60% of a full course-load we noted that the Program pro-rated living costs, study period contribution, and parental contribution based on the number of weeks attended. Tuition was pro-rated based on the number of weeks attended plus two. Books and supplies costs and compulsory fees remained the same as originally assessed. We noted, however, that in these reassessments, the $275 per study week maximum entitlement was not applied. Program management indicated that prior to August 1, 1995, students that withdrew were only entitled to a maximum of $275 per study week for CSL/MSL. As of August 1, 1995 management advised that their policy had been amended to eliminate the weekly maximum. In our view, not applying the maximum results in inequities between loan recipients.

In our sample of 100 students, eight had completely withdrawn from their program of study. We found that for five of these students, the reassessed loan entitlements yielded awards per study week that exceeded $275. For four of these five students this occurred because the student's original financial need exceeded the $275 per study week maximum in their original assessment. Had the policy of a maximum of $275 per study week been applied, the total awards ($23,177) for these five students would have been reduced by $6,402.

R21 We recommend that, for students who withdraw from their program of study, the Program amend their assessment policies and processes to incorporate the $275 per study week maximum into the loan entitlement calculations.

DEPARTMENT RESPONSE

Student Aid has implemented this recommendation for the 2002/03 program year.

1.4 The Need To Better Communicate Reasons For Reassessments

The approval process for any government program should be very transparent in order to foster public trust in the process. For a student loan program, the process for determining a student's award should be clearly communicated to the student, including a summary of how the costs, resources, and financial need were calculated.

We found that for our sample of 100 awards, the Program sent a Notice of Award to each student. The Notices identified the maximum CSL and MSL that the student was entitled to by disbursement date, and accurately summarized the assessed resources, costs, and financial need. However, we noted that for reassessments, revised Notices of Award contained insufficient detail to clearly explain why the assessed resources and the total financial need had changed. This was particularly a problem regarding a change in the student's financial resources. Assessed resources consist of pre-study period contribution, study period contribution, parental contribution, and other assets. The revised Notice of Awards did not identify which amounts had been amended, nor did they provide an explanation for the change.

Program staff believe that the complexity of assessment procedures and the uniqueness of each assessment make it difficult for the Program to briefly summarize the reasons for changes in awards. Program staff acknowledged, however, that the lack of detail resulted in increased student inquiries. Because the Program does not have information on the number of calls and the length of time spent on student inquiries relating to reassessments, we were unable to estimate the impact on program efficiency and costs.

R22 We recommend that the Program identify the specific assessed resource that has been amended and the reason for the change on revised Notice of Awards.

DEPARTMENT RESPONSE

Student Aid is reviewing all communications to students and will consider this recommendation as part of the review.

R23 We recommend that the Program explore opportunities to gather pertinent statistical information related to student inquiries.

DEPARTMENT RESPONSE

Student Aid agrees with this recommendation and will explore the cost/ benefit of processes to gather statistical information on student inquiries.

1.5 The Need To Strengthen Control Over Confirmation Of Enrollment For Out-Of-Province Students

Before a financial institution can process a student loan, educational institutions must confirm enrollment on the loan authorization documents. For students attending the University of Manitoba, the Program obtains confirmation through an electronic data link with the University. The loan authorization documents are then sent directly by the Program to these students. For all other Manitoba educational institutions, the loan authorization documents are initially sent to the educational institution for confirmation of enrollment and then passed on by the institution to the student. As such, the Program relies on the financial institution, as its agent, to ensure that enrollment is properly confirmed by the educational institution.

For students attending out-of-province educational institutions, however, the loan authorization documents are sent directly to the student rather than the educational institution. As such, there is a risk that an unauthorized individual could sign the enrollment confirmation on loan authorization documents. Program management advised that they implemented this process because loan documents had, on occasion, been misplaced by outside of Canada educational institutions. In addition, they stated that for educational institutions outside of Canada it was not always clear who they should forward loan authorization documents to. Given that the Program has approximately 5% of their loan recipients attending educational institutions outside of Canada, the Program's exposure is reasonable. However, because approximately 14% of student loan recipients attend out-of-province schools in Canada, we believe that the Program should amend its enrollment confirmation process for these students.

R24 We recommend that the Program forward loan authorization documents directly to out-of-province educational institutions in Canada for confirmation of enrollment.

DEPARTMENT RESPONSE

Student Aid will explore this audit recommendation.

OTHER MATTER

Quality Assurance

Effective quality assurance review processes provide management with assurance that policies and procedures are being followed and that calculations are accurate. When transaction volume is high, it would be reasonable to perform a quality assurance review process on a sample of transactions, focusing on those transactions considered to be of greatest risk to the organization.

We found that the Program did not perform a quality assurance review process over the assessment of loans. In our sample of 100 students for the 1998/99 academic year we found seven clerical errors. These clerical errors resulted in overawards to three students totaling $3,672. The reasons for these errors included: (1) for reassessments, the existence of automated data fields that had been overridden in the original assessment but overlooked in the reassessment, (2) lack of certain processing controls when inputting data into the computerized assessment system and (3) workload pressures on Program staff. In addition, in our sample of discretionary awards we found two clerical errors resulting in overawards of $6,183.

There is a cost borne by the Program for errors that result in overawards, as described previously in section 1.3 of this report.

We believe the Program would benefit from a quality assurance review process over the awarding of loans, particularly those assessed as being high risk. In our view, loan entitlements that include manually overridden data fields would be considered higher risk transactions, as would discretionary awards (1.3.3) and appeals on parental contributions (1.3.2.4).

In recommendations R2, R6, R7, R11, R12 the need for a comprehensive post-audit process is discussed. It is important that the differences between a post-audit process and a quality assurance review process be understood. While both involve the review of application files (hard copy or electronic) after the application has been approved, quality assurance reviews will focus on compliance with policy and procedures, including clerical accuracy, whereas post-audit reviews will focus on verifying the accuracy and completeness of information received from the applicant. As such, post-audit reviews are critical in assessing the adequacy of application review policies and procedures.

R25 We recommend that the Program conduct quality assurance reviews on the application assessment process. Policies and procedures should be developed to ensure an effective quality assurance review process is in place and include the expectation that application files be selected for review on a random basis and on the basis of risk.

DEPARTMENT RESPONSE

Student Aid recently hired a business analyst who will conduct quality assurance reviews on a timely basis.

2. IS THE PROGRAM MAXIMIZING THE COLLECTION OF STUDENT FINANCIAL ASSISTANCE REPAYABLE TO THE PROVINCE OF MANITOBA?

WHAT WE CONCLUDED

We concluded that while the Program had diligently worked to improve the management of loans receivable since the end of 1999, existing practices did not ensure that the Program was maximizing the collection of student financial assistance repayable to the Province of Manitoba.

We reached our conclusion by examining the following criteria:

- 2.1 The loans receivable records should be complete and accurate.
- 2.2 Sufficient and appropriate information should be in place to facilitate effective management of the collection of loans receivable.
- 2.3 All available methods should be reasonably employed to collect loans receivable.
- 2.4 The organization's performance on collecting its loans receivable should be evaluated.

To evaluate these criteria we examined the loans receivable records maintained by the Program at both the Winnipeg Office and the Westman Regional Office (WRO) in Brandon. We also examined a sample of 30 new loans receivable from claims for loss recorded during the period April 1, 1999 to September 30, 2000 and a sample of 40 loans receivable written-off in 2000. In addition, we interviewed Program staff in the Winnipeg office and at the WRO in Brandon, other departmental staff and student financial assistance program officials from five other provinces.

Collection and Write-off Statistics

As illustrated in Figure 18, the Program's loans receivable write-offs have significantly increased since March 31, 1999. The large **account write-offs** in 1999/00 and 2000/01 occurred for a number of reasons as shown in Figure 19. We note that accounts written off because collection was considered unlikely, totaling approximately $1,807,000, represented potentially collectable accounts that were not collected despite collection efforts made by the Program.

The reduction in **claims for loss** reflects the reduction in pre-1995 loan defaults (fully guaranteed program) and the effect of the risk loan program between 1995 and July 31, 2000. Under the risk loan program the financial institutions were responsible for the vast majority of defaulted risk loans. The Program anticipates an increasing trend in these figures (defaulted loans) in the next year as a result of the return to a fully guaranteed loan program.

Claims for loss refers to a document submitted by a financial institution to recover principal and interest on fully guaranteed and limited guaranteed student loans in default.

Amounts collected is showing a slight downward trend as a result of the significant decrease in claims for loss, likely offset by the results of management's emphasis since April 2000 on acting in a more timely manner on new loans in default.

FIGURE 18

Loans Receivable (000s)						
Fiscal Year Ending	Opening Balance	Claims for Loss	Amounts Collected	Misc. Account Adjustments (including Interest)	Accounts Written Off	Closing Balance
March 31, 1999	$ 6,478.3	$ 1,130.2	$ 411.5	$ 449.5	$ 166.3	$ 7,480.2
March 31, 2000	7,480.2	533.6	405.4	604.9	1,229.3	6,984.0
March 31, 2001	6,984.0	380.5	383.9	373.3	3,361.7	3,992.2

Source: Program internal records

FIGURE 19

Analysis of Accounts Written Off			
Reason for Write Off	Amount (000s)		
	1999/00	2000/01	Total
Bankruptcy	$ -	$ 1,762.3	$ 1,762.3
Collection Unlikely	1,045.8	760.7	1,806.5
Unable to Locate Debtor	104.7	683.5	788.2
Disabling Medical Condition	76.4	21.8	98.2
Debtor Deceased	2.4	133.4	135.8
Total	$ 1,229.3	$ 3,361.7	$ 4,591.0

Source: Program internal records

Important Considerations

The Student Financial Assistance Program is fairly complex and has undergone significant changes in the last seven years as described previously in the section, **About the Program**.

We found that sufficient and appropriate financial expertise was not available to the Program for over five years, from 1994 to late 1999. We believe that this had a significant impact on the Program and contributed to many of the problems reflected in this section of our report.

Two positions that are key to the effective management of loans receivable were vacant, or under-resourced, for significant periods of time. These two positions were (i) Manager, Financial Services and (ii) Manager, WRO.

The Manager, Financial Services position was created in early 1997 but was not filled until November 1, 1999 when a qualified and experienced accountant was hired. The position is a key member of the Program management team. The Manager, Financial

Services, is responsible for financial administration and reporting, financial systems planning, design and implementation, policy interpretation, legislation and regulation compliance, lender negotiations, federal and provincial financial agreements, loans receivable administration, and collection agency arrangements. To manage these aspects well, the Program requires appropriate financial expertise.

From 1994 to November 1999, financial management for the Program was performed on a part-time basis by staff from the Management Services Branch of the Department. We were advised that the delay in filling the Manager, Financial Services position occurred because the salary range initially posted made it difficult to attract candidates with appropriate financial and banking experience. In time, the Program was successful in reclassifying the position to a more senior level and in attracting an appropriately qualified candidate.

The Supervisor, WRO position was originally classified as a supervisory position in April 1994 when the loans receivable function was transferred to Brandon. This position was responsible for the day to day management and collection of loans receivable. A person without formal accounting training filled the position even though a new computerized loans receivable information system was implemented in 1995. Because the Manager of Financial Services was not in place until November 1999, the Supervisor of the WRO reported to the Director of Financial Analysis in the Department's Management Services Branch. At that time, the Branch was providing financial management services to the Program on a part-time basis. The Supervisor of the WRO position was vacated on October 18, 1999. This position was reclassified to Manager, WRO and on February 7, 2000 a professional accountant was hired.

We acknowledge the efforts of Program officials in making significant improvements in the management of the Program's loans receivable since November 1999.

Also, as noted in our discussion of subsequent events, as of August 1, 2001 a Student Loan Service Bureau was established to perform the financing and administration of new Manitoba Student Loans. Loan administration will be facilitated through banking software provided by Credit Union Central of Manitoba. The Departmental responses to some of our recommendations refer to the impact of these changes on the issues reported.

WHAT WE FOUND

2.1 The Need To Ensure Loans Receivable Records Are Complete And Accurate

In order to maintain complete and accurate loans receivable records, an organization should ensure:

- each new loan receivable is valid and accurate;
- each new loan is recorded on a timely basis;
- interest is accrued and recorded on each loan receivable in accordance with established policies;
- the loans receivable sub-ledger is reconciled on a monthly basis to a control account; and
- an adequate allowance is provided for doubtful loans receivable.

Recording a new loan receivable in an accurate and timely fashion is important because it provides the basis for the organization to begin its collection efforts.

Loans receivable are created by the receipt of a claims for loss from contracted financial institutions. Claims for loss can stem from the previous guaranteed loan program (pre-1995) and the previous risk loan program (January 2, 1995 to July 31, 2000).

Under the risk loan program, the Province guaranteed loans if, at any time up to the due date of the borrower's first payment, the borrower:

- was still a minor,
- became deceased, or
- entered into an event of insolvency.

In addition, the Province guaranteed loans on a limited basis if the credit check, conducted by the contracted financial institution, indicated a history of credit abuse. As a limited guaranteed loan, the amount of the guarantee diminished in direct proportion to the length of time the student was in repayment status.

We found, in our sample of 30 claims for loss, that the claims for loss were valid and that they were accurately recorded as loans receivable by the Program.

We also noted that the Program added the full value of its new loans receivable to its allowance for doubtful accounts resulting in a net loans receivable balance of zero. This is a conservative accounting policy based on Program management's assertion that the Program has historically collected less than 10% of its loans receivable. We believe it is a reasonable practice.

We identified the following areas where improvements are required to ensure loans receivable records are complete and accurate:

2.1.1 new claims for loss are not always recorded in a timely manner;
2.1.2 interest is not accrued on post-1997 bankruptcy accounts;
2.1.3 no formal authority to pay certain claims for loss on risk loans; and
2.1.4 lack of information regarding risk loans that have qualified as limited guaranteed loans.

We also noted weaknesses in the control account reconciliation process. This is discussed in section 2.2.3.

2.1.1 The Program Should Record All New Claims For Loss On A Timely Basis

While the Program had set a one month time frame target for the recording of a claim for loss, it did not accumulate information regarding its actual performance. We found that 15 of the 30 claims for loss in our sample were recorded within the Program's target of one month from receipt. However, for the other 15 claims for loss in our sample, we noted that the one month time frame was exceeded from a low of nine days to a high of about five and a half months.

Program officials advised us that delays of this nature could have occurred when there were discrepancies between a claim for loss document and the Program's information system. Officials also spoke of delays when dealing with complexities associated with ensuring the accuracy of claims for loss on limited guaranteed risk loans.

In addition, officials advised that workloads and other priorities of the Winnipeg and the WRO staff, coupled with the physical separation of the two offices, may also have contributed to delays in recording claims for loss.

Excessive timing delays in recording claims for loss results in the Program not having current information on loan recipients who have defaulted on their student loans. More importantly, however, because these loans are already more than 90 days in default when the claim for loss is received, lengthy delays in processing these claims may negatively impact the Program's ability to locate the debtor.

R26 We recommend that the Program review its current process for dealing with complex claims to identify opportunities for processing these claims on a more timely basis.

DEPARTMENT RESPONSE

The Manitoba Student Loan Service Bureau (Service Bureau) agrees. Complex claims will be given priority attention to ensure these claims are processed within the established 30 day time frame.

R27 We recommend that the Program accumulate information regarding its performance in processing claims for loss. Performance results that do not meet established targets should be followed-up and corrective action taken.

DEPARTMENT RESPONSE

The Service Bureau agrees and is putting in place a document tracking process to improve performance in processing claims for loss.

2.1.2 The Program Should Accrue Interest On Post-1997 Bankruptcy Accounts

We found that the Program had not accrued interest on accounts where the debtor declared bankruptcy on or after September 30, 1997, commonly referred to by the Program as 'post-1997' bankruptcy accounts. As at January 31, 2001, this involved 111 accounts with a total accounts receivable value of $356,145.

The Bankruptcy Act was amended in 1997 so that student loan debts that are part of debts declared on or after September 30, 1997 remain a debt of the student when the student is within two years of graduating. The two year period was extended to 10 years for bankruptcies declared on or after June 18, 1998.

Interest was not accrued on these accounts because the Program incorrectly categorized them the same as accounts for students declaring bankruptcy prior to September 30, 1997. Pre-September 30, 1997 accounts rightfully did not accumulate monthly interest charges.

R28 We recommend that the Program accrue interest on all post-1997 bankruptcy accounts.

DEPARTMENT RESPONSE

The Service Bureau agrees. The Credit Union Banking System (CUBS) now used by the Program has the capability to satisfy this audit recommendation. The Service Bureau has implemented this system, and the process of transferring all loan receivables to the CUBS system is currently under way.

2.1.3 The Program Should Seek Amendments To Its Regulation To Obtain Authority To Pay Claims For Loss For Specified Circumstances

We found that the Program, in 2000/01, paid eight claims for loss, totaling $29,167, for risk loans where the borrowers defaulted as a result of a disabling medical condition. We question the appropriateness of paying these claims because the regulation only provides authority to pay claims for losses on risk loans upon the death of a borrower while the borrower is attending post-secondary school.

Officials advised us that the Program honors claims for loss occurring as a result of a disabling medical condition in order to be consistent with the collection practices of the Canada Student Loans program.

Program management advised that the agreements with the financial institutions better reflect the intent of the Program. We noted that the formal agreements allow the financial institutions to submit a claim for loss on a risk loan if, at any time up to the first payment becoming due from the borrower, the borrower was a minor or entered into an event of insolvency.

We also noted that the section of the regulation providing the authority to pay claims for loss was drafted under the previous guaranteed loan program (pre-1995) and was not amended as a result of the change to the risk loan program in 1995. As such, we believe the regulation should be amended to specifically provide authority for the payment of claims for loss on risk loans due to the borrower having a serious medical condition, and for the borrower being a minor or entering into an event of insolvency prior to loan consolidation.

R29 We recommend that the Program amend the Manitoba Student Assistance Program Regulation of the Education Administration Act to obtain authority to pay claims for loss on risk loans due to:

- **the borrower having a disabling medical condition,**
- **the borrower being a minor, and**
- **the borrower claiming insolvency.**

DEPARTMENT RESPONSE

The Service Bureau agrees. The Service Bureau will review this matter with legal counsel.

2.1.4 The Program Should Obtain Information Regarding The Value Of Limited Guaranteed Loans

For the risk loan portfolio if the student had a history of credit abuse then the Province guaranteed the loan on a limited basis. The amount of the guarantee diminishes in direct proportion to the length of time the student was in repayment status, as follows:

- in the student's first year of repayment the Province guarantees 100% of the loan principal;
- in the student's second year of repayment the Province guarantees 66.7% of the loan principal; and
- in the student's third year of repayment the Province guarantees 33.3% of the loan principal.

For the purposes of disclosing the amount of student loans guaranteed by the Province, Program officials advised that they had to estimate the amount of limited guaranteed loans outstanding. Estimating the balance was necessary because one of the two contracted financial institutions had not informed the Program of any students that qualified for limited guaranteed loans. As such, the Program was not clear whether any limited guaranteed loans existed within this financial institution. In addition, the Program stated that it could not rely on the accuracy of the limited guaranteed loan information from the other financial institution or on the accumulation of such information in the Program's information system.

As a result, the Program developed an estimate of the amount of limited guaranteed risk loans calculated as 3.9% of the value of risk loans not in repayment status. The resulting estimate equalled $1.2million. However, we could not determine whether 3.9 was a reasonable percentage because the Program had not updated its rationale since March 1997.

Having a good understanding of the amount of outstanding limited guaranteed loans is important because this information is needed to estimate the provision for future losses and to report on the total amount of student loans guaranteed by the Province.

R30 We recommend that the Program obtain detailed information from the financial institutions regarding risk loans that have qualified as limited guaranteed loans.

DEPARTMENT RESPONSE

Student Aid and the Service Bureau agree and will continue to try to get detailed information from the financial institutions as part of the monthly information upload. Note that summary information is already received from one of the financial institutions.

2.2 The Need For The Program's Automated Information System To Better Meet The Information Needs Of Users

Automated information systems should support the information needs of Program staff. When this does not occur, staff efficiency and effectiveness can be compromised.

To effectively manage the collection of its loans receivable, an organization should obtain information on the ageing of their loans receivable and the current status of collection actions taken on each loan. This information helps management determine on a timely basis whether more aggressive collection techniques on certain loans are required.

We found that the Program's automated information system did not provide management with sufficient and appropriate information:

2.2.1 on the ageing of loans;
2.2.2 on collection actions performed on each loan; and
2.2.3 on certain transactions to enable the efficient reconciliation of the loans receivable subledger to a control account.

In addition, we also identified:

2.2.4 faulty programming logic in the calculation of interest charges posted to individual accounts.

2.2.1 The Information System Should Provide Complete And Accurate Aged Loans Receivable Reports

We noted that the Program's information system generated an aged monthly summary loans receivable report. However, the method of calculating the aging of the loans receivable was flawed. Officials advised that the system did not age the loans receivable to reflect outstanding payment requirements. Rather, the system would show as current any account for which a payment, in whatever amount, had been received in the month of the report, despite the fact that a number of previous payments had not been received. Making a partial payment on an account that is several months in arrears does not make the remainder of the account current.

In addition, there is no aged information for:

- accounts at collection agencies,
- accounts in pending discharge (debtor has declared bankruptcy),
- accounts pending write-off, and
- accounts in payment free status (debtor is in full-time attendance at a post-secondary educational institution).

This information would be useful to the Program because they would be alerted, on a more timely basis, to accounts where follow-up was required. Examples of follow-up being required are an account at a collection agency for over a year where no monies are being collected or an account in pending discharge for over a year where the legal documentation has not yet been received.

2.2.2 The Information System Should Provide Better Information On Collection Actions Taken On Accounts

We found the information system did not accumulate important information regarding the collection actions that had been performed on each account in such a way that the information could be readily compiled and analyzed. We noted that limited information was available on overall collection actions on the monthly summary loans receivable report. This report disclosed the number and dollar value of loans in:

- payment free status,
- at a collection agent,
- pending discharge, and
- pending write-off.

In addition, we noted that the information system provided reports that listed accounts by specific collection agency and by first and second referral. However, the information system could not provide Program management with individual or overall information on the other specific collection actions being performed, such as locating debtor, first notice letter sent, and telephone follow-up. In an effort to compensate for this lack of system generated information, staff recorded collection actions taken in the ‘communication notes’ feature of the system. In effect, an electronic memo. We found that for most of our sample of 30 claims for loss, communication notes were on file but that the notes were brief and did not include all of the collection activities performed by Program staff. While using communication notes to document collection activities performed is useful, it does not take full advantage of the systems computing capacity. This is because the information in communication notes cannot be accumulated, compiled or resorted.

To compensate in part for this lack of information, in April 2000, the Manager, WRO began downloading, on a monthly basis, detailed transaction and account information from the Program’s information system into spreadsheets that he created. These spreadsheets were used to track monies collected on individual accounts, both internally and at collection agencies, and to track the movement of files between the Program and the collection agencies. Not being able to generate this information directly from the Program's information system results in an inefficient use of resources, as Program officials have to perform additional steps to develop and track information on collection activities. Despite this effort, overall information on other specific collection actions being performed remains unavailable to Program management.

2.2.3 The Program Should Ensure Its Automated Information System Generates Necessary Information To Allow The Efficient Reconciliation To A Control Account

We noted that since 1995, the Program had experienced difficulties in ensuring an appropriate annual reconciliation between the aged loans receivable trial balance and the Provincial general ledger control account (monthly reconciliations were not performed). As at March 31, 2000 Program records showed an unreconciled balance of approximately $560,000. In April 2000, the Program began preparing monthly reconciliations. While the $560,000 unreconciled balance was not resolved until April 2001, we noted that all of the monthly reconciliations for the fiscal year ending March 31, 2001 resulted in small additional unreconciled balances.

In examining loans receivable reconciliation reports and in detailed discussions with Program officials, we noted the following items that made the reconciliation process very inefficient:

- aged loans receivable month-end reports omitted accounts over five months old that:
    - were not referred to a collection agency, or
    - were not categorized in payment free status, pending discharge or pending write-off;
- one-sided entries were allowed by the information system; and
- the information system did not generate reports detailing month-end interest charges, interest reversals, and other miscellaneous adjustments. The total monthly interest charges were, therefore, estimated by comparing the pre-month end aged loans receivable balance to the balance after the automated interest function was executed. We noted that all other adjustments to individual accounts were tracked on electronic spreadsheets.

2.2.4 The Information System Should Accurately Calculate Interest

The financial component of the Program's information system calculates the interest charge that must be added to each account. However, faulty programming logic in this component has resulted in the following systemic and recurring miscalculations:

- Interest on each account is compounded at March 31 when it should be compounded on the account's anniversary date. This programming error results in debtors being charged more interest than they should be charged each year on their account, beginning in the year following the initial compounding at March 31. Additional interest is being charged to the accounts because interest is being compounded at an earlier date than the anniversary date of the debtor's account.

  To illustrate, we performed a quantitative analysis on a hypothetical loan of $5,000 for the period September 1, 1997 to August 1, 2000. Using an interest rate of prime plus 2% and compounding interest on this hypothetical loan as at March 31 instead of the anniversary date of September 1 results in the debtor being over-charged interest of $9.40 over three years.

- For accounts where debtors make payments through collection agencies, the system reverses the current month's interest charges and incorrectly recalculates the current month's interest assuming the payment was made on the 1st of the month rather than on the date the payment was actually made. This programming error results in debtors being charged less interest than should be charged to their account. In our sample of 30 claims for loss, 16 of which were with collection agencies, several payments had been made by debtors on two of the 16 accounts. We found that interest was calculated incorrectly in the month that these payments were made resulting in the debtor being charged less interest.

At the time of our audit, management had not attempted to estimate, collectively or individually, the financial impact of the interest calculation errors.

R31 We recommend that the Program determine the extent to which its current information system is capable of being amended to better address the Program's information needs. The Program should then pursue amendments that are judged to be cost-effective.

DEPARTMENT RESPONSE

The Service Bureau agrees and has addressed this issue. It was determined that the student financial assistance information system is not a financial module and the decision to move all loan receivables to the CUBS system has been made. The transfer of all loans receivable to the CUBS system is currently underway.

2.3 The Need To More Aggressively Pursue The Collection Of Student Loans In Default

In collecting its loans receivable, an organization should:

- define the collection methods available and when they are to be used, and
- take timely initial and subsequent collection action on accounts.

Clearly defining and consistently applying the available collection methods helps ensure all debtors are treated equitably and that the organization maximizes the results of its collection efforts.

We found that the Program initiated collection actions for most of the 30 loans receivable (accounts) in our sample substantially within five working days of verifying the validity of the loan receivable and accurately recording the loan receivable.

However, we identified the following areas where the Program's collection efforts required strengthening. Specifically, we found that:

2.3.1 the Program did not frequently utilize more aggressive collection methods;
2.3.2 the Program did not pursue collection of post-1997 bankruptcy accounts on a timely basis; and
2.3.3 bursary receivables were not adequately managed.

2.3.1 Aggressive Collection Methods Should Be More Frequently Utilized

In our sample of 30 accounts, we found 12 accounts where the debtor had been located and collection efforts were ongoing. However, the Program had only collected $4,817 (16%) to March 31, 2001 from a total initial receivable balance of $29,372. As shown in Figure 20, collections were occurring on seven of the 12 accounts noted.

FIGURE 20

Results of the Program's Collection Efforts for our Sample of 30 Accounts

Actions	# of Accounts	Original Amount	Balance Collected to March 31, 2001
Accounts deemed uncollectable	7	$ 18,983	$ -
Post-1997 bankruptcies	2	3,719	-
Unable to locate debtor	9	18,293	-
Sub-total	18	40,995	-
Debtor located and collections efforts were ongoing:			
• No amounts collected	5	13,133	-
• Some amounts collected	7	16,239	4,817
Sub-total	12	29,372	4,817
Total	30	$ 70,367	$ 4,817

We found that for these 12 accounts, collection actions, whether exercised by Program staff or a collection agency, were limited to letters and telephone calls. Based on our review of collection agency activity reports, we believe that the Program could have pursued legal action on two of the five accounts where no collections were occurring. In our view, the collection actions taken by the Program were very passive and, based on the collection results of the accounts we examined, not effective.

For the period February 2000 to May 2001, we noted that legal action was only pursued on eight accounts, dating from November 30, 1994 to July 28, 1998. Program officials acknowledged that the Program was not using legal action as often as they should be. In addition, we noted that right of set-off was not utilized by the Program. Both of these collection actions were available to the Program through the Financial Administration Act. In interviews with student financial assistance officials from five other provinces, we noted that other provinces indicated that they were more aggressively using legal action and right of set-off, as shown in Figure 21.

FIGURE 21

Collection Actions Used by Other Provinces

Collections Actions	Province				
	1	2	3	4	5
Right of set-off	✓	✓		✓	✓
Garnishee wages	✓	✓	✓	✓	
Garnishee bank accounts	✓	✓			
Encumbrances on property	✓	✓		✓	

On March 31, 2000 and September 30, 2000 a total of $3.5 million in accounts were written off by the Program. Write-offs are inevitable and appropriate when every reasonable avenue to collect the debt has been exhausted and the potential recovery of any portion of the debt is judged to be very unlikely. However, in our discussions with management we determined that approximately $2.1 million of the noted write-offs occurred after years of inattention to the specific accounts. The $2.1 million is comprised of $1.1 million in accounts dated between 1987 and 1990 and $1.0 million in accounts dated between 1993 and 1997 that were left at collection agencies despite the agencies' failure to collect. We believe that the failure to recall and refer these accounts to a second collection agency or to take other collection actions, on a timely basis, may have contributed to their uncollectable status.

As discussed earlier, the Program was under-resourced in the financial management area from 1994 to 1999. Specifically, we noted that the Program's loans receivable function was relocated to Brandon in 1994, as part of a re-organization of the functions to be performed at the WRO. Responsibilities transferred to the Brandon office included the monitoring of accounts referred to collection agencies. We noted, however, that the management of the Brandon office was not resourced with the appropriate expertise until February 2000. Approximately two months later the lack of attention to the above noted accounts was discovered.

In April 2000, the Program began assessing the adequacy of results achieved by collection agencies and in July 2000 began recalling accounts for referral to a second agency. In our sample of 30 new accounts recorded between April 1, 1999 and September 30, 2000, 16 were referred to a collection agency. We agree with the Program's assessment in this regard. Of these 16 accounts, six have since been recalled and referred to a second agency. Although no amounts have been collected as at March 31, 2001 on these six accounts, we were advised that overall the Program has collected approximately $41,000 on $1,933,000 of accounts referred to a second collection agency between November 2000 and March 2001. While these results are not particularly encouraging, enough time had not elapsed to be able to evaluate whether or not sending accounts to a second collection agency is an effective collection action.

R32 We recommend that the Program utilize right of set-off and when warranted pursue legal action to collect loans receivable. Furthermore, the Program should establish formal collection policies that define what collection actions are available and when each action is to be used.

DEPARTMENT RESPONSE

The Service Bureau agrees. The Service Bureau has been using legal action on a limited basis in the collection of receivables and will continue to use it in the future as warranted. The Service Bureau has collection processes in place and will now proceed to document them. The Service Bureau will pursue the use of right of set-off.

2.3.2 The Program Should Initiate More Timely Collection Actions On Post-1997 Bankruptcy Accounts

We found that the Program had not initiated timely collection actions for accounts where debtors had declared bankruptcy on or after September 30, 1997. (As discussed in section 2.1.2, significant changes to the Bankruptcy Act were made on September 30, 1997.) These accounts were treated the same as pre-1997 bankruptcy accounts and were put into 'Pending Discharge' status. This is a holding category for accounts awaiting receipt of legal documentation required prior to the account being written off.

In April 2000 Program staff recognized the error and in June 2000 a detailed account by account analysis was performed to identify the post-1997 bankruptcy accounts and to ensure that the other debts declared in the bankruptcies had been discharged. A debtor's other debts must be discharged in the courts before any collection actions can be undertaken on a defaulted student loan. As at January 31, 2001 there were 111 post-1997 bankruptcy accounts totaling $356,145.

Program officials advised us that the status of these 111 accounts was as follows:

- 25 of these accounts, totaling $92,834, were, as at March 2001, identified to be written off. These were accounts where the debtor declared bankruptcy between September 30, 1997 and June 18, 1998. Program management did not believe they could pursue these accounts because these debtors were all two years past their end of study date.
- 53 of these accounts, totaling $166,060, were, as at June 2001, being collected or were being pursued for collection by the WRO or by a collection agency. Nineteen of the 53 accounts, for which collection actions have been initiated, sat dormant with no collection actions taken for over two years after other debts had been discharged and 15 accounts for over one year. Such significant time delays may have impaired the Program's ability to collect because tracing, locating and pursuing the debtor may become more difficult with the passage of time.
- The remaining 33 accounts totaling $97,251 were primarily accounts where the debtors' bankruptcy claims were not discharged (29 accounts totaling $81,335) as at March 31, 2001. While we observed that bankruptcy claims are normally discharged in less than one year, the majority of these bankruptcy claims had been awaiting discharge for over a year, several of them for over two years. The Program would have to obtain permission from the courts to pursue collection of these debts. A decision from Program management on whether or not they should pursue these accounts was pending as at June 2001.

R33 We recommend that the Program evaluate the cost/benefit of pursuing debtors whose other debts, at the time of declaring bankruptcy, have not been discharged for a significant length of time.

DEPARTMENT RESPONSE

The Service Bureau agrees. We will evaluate the cost/benefit of pursuing these debtors on a case-by-case basis.

2.3.3 Bursary Receivables Should Be Better Managed

We identified the following concerns regarding the management of bursary receivables. The Program did not:

2.3.3.1 offset Access bursary receivables against new bursary receivables awarded to students;
2.3.3.2 charge interest on defaulted bursary receivables when debtors returned to post-secondary school; and
2.3.3.3 provide an adequate allowance for doubtful bursary receivables.

Bursary receivables refer to overpayments of bursaries awarded to students that occur because of changes in student circumstances or incorrect application information.

2.3.3.1 The Program should offset Access bursary receivables against new bursary receivables

We reviewed a sample of five Access bursary receivables ($7,210) recorded in the 1999/00 academic year. We noted that four ($4,021) of these students continued to attend post-secondary school full-time in 2000/01 and had received additional CSL/Access bursary funding without first repaying their outstanding bursary receivables.

The **ACCESS** program provides bursaries to Manitoba residents from under-represented groups to enhance their accessibility and success at Manitoba public post-secondary institutions. Targeted groups are Aboriginal, female, single parent, and immigrant students.

Program officials confirmed that Access bursary receivables are not deducted from new Access bursaries awarded to students. We noted that this practice was inconsistent with the treatment of CSL/MSL overawards. These overawards are deducted from future CSL/MSL awards.

R34 We recommend that the Program, for students that continue to attend post-secondary school at a designated educational institution, deduct Access bursary receivables from new bursaries awarded to these students and that policies be amended to reflect this practice.

DEPARTMENT RESPONSE

Student Aid and the Service Bureau are reviewing policies on all bursary receivables in order to promote student success and improve financial responsibilities.

2.3.3.2 The Program should charge interest on bursary receivables in default

We found that the Program was not charging interest on bursary receivables for debtors that had returned to full-time attendance at a designated educational institution and were in default of their bursary receivable. This is inconsistent with the Program's practice of charging interest to debtors in default of a MSL who have returned to full-time attendance at a designated educational institution.

R35 We recommend that the Program charge interest on bursary receivables for debtors that return to full-time attendance at a designated educational institution and are in default of their bursary receivable.

DEPARTMENT RESPONSE

Student Aid and the Service Bureau are reviewing policies on all bursary receivables in order to promote student success and improve financial responsibilities.

2.3.3.3 The Program should provide an adequate allowance for doubtful bursary receivables

As at January 31, 2001 outstanding bursary receivables totaled $732,470. On this balance an allowance of only $72,000 had been recorded. We noted that the practice of not recording a full allowance against the accumulated bursary receivables was not consistent with the Program's practice of providing an allowance equal to the full amount of loans receivable. Program officials advised us that the Program historically collected approximately 5% of its bursary receivables. As such, the allowance is significantly understated. We believe it would be appropriate to record an allowance equal to the full amount of bursary receivables outstanding.

R36 We recommend that the Program establish an allowance equal to the full amount of bursary receivables outstanding.

DEPARTMENT RESPONSE

The Service Bureau agrees and the full allowance has since been established.

2.4 The Need For The Program To Evaluate Its Performance On Collecting Student Loans In Default

To evaluate its performance, an organization should:

- compare its performance on a year over year basis to establish appropriate benchmarks;
- compare and analyze actual performance against the benchmarks; and
- compare and evaluate its methods and performance with similar organizations in other jurisdictions to determine if alternative methods should be implemented.

The Program lacks the detailed comparative historical collections data necessary to establish a benchmark for the Program's collections. We found that the Program had compiled collection data for each of the collection agencies utilized in the 2000/01 fiscal year but similar information had not been compiled or analyzed for previous years.

In addition, the Program had not compiled information on collection methods used by similar programs in other provinces or their collection results. This information would assist in evaluating the effectiveness of the Program's collection methods.

As a result, the Program was unable to assess and report on the adequacy of its collection performance including the performance of collection agencies.

Management advised that it had attempted, but was unsuccessful in obtaining comparable collection results information from other provinces. We acknowledge that little collection results information is available publicly. Management further advised that the types of student financial assistance vary between provinces and that program design can have a significant impact on the methods of collection that would be appropriate and on collection results.

R37 We recommend that the Program collect historical data in order to establish appropriate benchmarks for the Program's collection activity.

DEPARTMENT RESPONSE

The Service Bureau agrees. Historical data is being collected, and appropriate benchmarks will be established. Note that collection agencies under contract provide monthly reporting of their collection activity.

R38 We recommend that the Program continue to seek opportunities to share information with other jurisdictions on collection performance and collection methods utilized.

DEPARTMENT RESPONSE

The Service Bureau agrees and will pursue the sharing of information with other jurisdictions on collection performance and collection methods utilized.

OTHER MATTERS

2.5 The Need To Strengthen The Monitoring Of Service Agreements

To obtain full value from a service purchase arrangement, it is essential that the purchaser ensure the service provider complies with the terms of the service agreement. Key terms of an agreement can include service standard expectations (such as processing and notification timelines, and quality of supporting documentation), as well as reporting expectations (such as content, format and timing).

We identified the following concerns regarding the Program's monitoring effort:

- 2.5.1 compliance with report content requirements,
- 2.5.2 verifying debtor eligibility for interest relief, and
- 2.5.3 verifying the eligibility of interest subsidy recipients.

2.5.1 The Program Should Ensure Required Information Is Obtained

We found that while both of the contracted financial institutions provided reports on their delinquent risk loans, the information provided by one of the institutions did not include the content stipulated in their agreement. As a result, the Program could not combine the information from both financial institutions to obtain a complete picture of the risk loan portfolio; information on loans delinquent by 90 days or more could not be categorized by type of educational institution (public or private) and by location (in and outside of Manitoba).

R39 We recommend that the Program obtain the required information as stipulated in their service agreement with the financial institution.

DEPARTMENT RESPONSE

Student Aid and the Service Bureau agree and will strive to have this information provided on a regular basis.

2.5.2 Interest Relief Payments Should Be Verified For Debtor Eligibility

Interest relief assists borrowers who are experiencing undue hardship in meeting their repayment obligations due to periods of unemployment, low income, or exceptional expenses. In 2000/01 interest relief payments totaled $1.2 million. Program officials expect that the interest relief program will continue to exhibit a pattern of growth in uptake.

We noted that the monthly interest relief claims submitted by the contracted financial institutions were processed by the Program with virtually no verification of the eligibility of the individual debtor. Upon request by the Program the debtor's approved application for interest relief, along with supporting documentation were to be forwarded by the contracted financial institution. Officials, however, advised us that they have never made such requests. Program management spoke of the need for a fast turnaround of the monthly interest relief payments and, as a result, of the impracticality of verifying individual applications.

In addition, Program officials advised that they did not track the number of months a debtor received interest relief to ensure that the maximum of 54 months was not exceeded, nor was this information requested of the financial institutions. As a result, the Program's monitoring process was not sufficiently rigorous to ensure that interest relief was provided only to debtors who were eligible.

Furthermore, we noted that the agreements with the contracted financial institutions had not been amended to include responsibilities regarding interest relief payments. Program management indicated that these responsibilities had been communicated by way of letter, but were unable to locate a copy of the correspondence. We did note, however, that the responsibilities of the contracted financial institutions regarding interest relief were clearly described in a related directive to Program staff.

R40 We recommend that the Program conduct, on a sample basis, post-audit procedures on interest relief applications and supporting documentation.

DEPARTMENT RESONSE

The Service Bureau agrees. The Service Bureau currently conducts limited audit procedures on a sample of interest relief claims. Supporting documentation will be requested in the future.

R41 We recommend that the Program track the number of months a debtor has received interest relief and ensure the maximum benefit of 54 months is not exceeded.

DEPARTMENT RESPONSE

The Service Bureau agrees to track the number of months a debtor has received interest relief to ensure the maximum benefit of 54 months is not exceeded.

2.5.3 Interest Subsidy Recipients Should Be Verified For Eligibility

The Program pays the interest on a student's loan while they are in full-time attendance at a designated institution and for six months following the student's end of study date. These payments are referred to as interest subsidy. For any study period where the student does not require a new loan a Continuation/Reinstatement of Interest-Free Status form (CR form) is required. Financial institutions must forward the appropriately authorized CR form to validate interest subsidy charges to the Program.

While not specifically included in our audit procedures, we noted four instances where CR forms were not in place. Program officials advised us that for the guaranteed loans negotiated prior to January 2, 1995 they were receiving all of the CR forms from the financial institutions. However, for the risk loans, Program officials advised us that they received most of the CR forms from one of the financial institutions and very few from the other financial institution. We noted that the Program continued to pay interest subsidy even though documentation requirements had not been met. As a result, the Program could not be assured of the validity and accuracy of interest subsidy payments. As noted in Figure 3, annual interest subsidy claims since 1998/99 have ranged from $3.3 to $3.9 million, however, the Program could not determine the amount of interest subsidy triggered by the CR form.

We also noted that controls were not in place to ensure interest subsidy was not granted to students who exceeded the lifetime maximum of 340 weeks of assistance. While the Assessment service area relied on the Canada Student Loans program to advise them of students that exceeded the lifetime maximum, this information was not shared with the Financial Services area. This information is required by the Assessment service area to ensure students are not awarded MSL for any study period that exceeds the lifetime maximum of 340 weeks.

R42 We recommend that the Program, in processing interest subsidy payments for students returning to post-secondary school who did not require a new student loan, ensure that appropriately authorized Continuation/Reinstatement of Interest-Free Status forms are in place.

DEPARTMENT RESPONSE

The Service Bureau agrees. Through the use of the CUBS system, the receipt of the "Continuation/Reinstatement of Interest-Free Status" forms is better facilitated for students who have received loans from the Service Bureau.

R43 We recommend that the Program develop an appropriate process to ensure interest subsidies are not paid for students exceeding the lifetime maximum of 340 weeks of assistance.

DEPARTMENT RESPONSE

The Service Bureau agrees. The interest subsidy period can be successfully tracked through the CUBS system for students who have received loans from the Service Bureau.

3. IS DESIGNATION STATUS FOR POST-SECONDARY EDUCATIONAL INSTITUTIONS APPROPRIATELY GRANTED AND MONITORED?

WHAT WE CONCLUDED

Based on our sample of designation files, we concluded that newly designated educational institutions were appropriately granted designation status. However, we also concluded that the Program did not adequately monitor designated educational institutions to ensure that they continued to comply with designation criteria and with administrative requirements. In addition, we concluded that the Program had not adequately defined performance expectations for designated educational institutions.

We reached this conclusion by examining the following criteria:

3.1 The Program should develop designation criteria.

3.2 The Program should assess educational institutions seeking designation status against these criteria.

3.3 Memorandums of agreement should be in place with each designated educational institution that specify ongoing designation criteria, administrative requirements and performance expectations.

3.4 The Program should monitor existing designated educational institutions to determine if the designation criteria, administrative requirements and performance expectations continue to be met.

To assess these criteria we:

- examined the Program's current policies and procedures;
- examined designation files for a sample of nine educational institutions representing approximately 10% of the newly designated institutions in the 1999/00 academic year;
- examined files and other pertinent documentation and interviewed numerous Program staff; and
- interviewed officials from student financial assistance programs in five other provinces regarding their designation practices.

On January 16, 2002 a new policy regarding the designation of educational institutions was approved by government. The Departmental responses to some of our recommendations refer to the impact of these changes on the issues reported.

WHAT WE FOUND

3.1 The Need To Review The Adequacy Of Designation Criteria

A student financial assistance program should designate educational institutions as being eligible to educate students who are financing their education, at least in part, through loans obtained from the Program. Before approving a student loan, a student financial assistance program should ensure that the educational institution and the noted program of study meet the designation criteria. Specific designation criteria should be in place for the various types of educational institutions.

Designation criteria can be defined as those characteristics of an educational institution and of a specific program of study judged to be essential to increase the likelihood that students will be provided with a quality education and a reasonable expectation of employment upon graduation. Designation status is intended to help protect the government's investment in student financial assistance by ensuring recipients attend quality institutions. Quality of education can have a significant impact on a student's subsequent earning power and ability to repay a student loan.

Designation criteria by type of educational institution are itemized in Figure 22.

FIGURE 22

Current Designation Criteria

Criteria	Type of Educational Institution					
	Cdn. Public		Cdn. Private		United States	International
	Manitoba	Other	Manitoba	Other		
Program of Study must be: • a post-secondary program leading to a certificate, diploma, or degree; • be at least 12 weeks in length, within a period of 15 consecutive weeks; • have a minimum of 15 instructional hours per week at a university or college or a minimum of 20 instructional hours per week at a private school; and • have entrance requirements of Grade 12 or equivalent or Mature Student Status.	✓	✓	✓	✓	✓	✓
Registration as a Private Vocational School	N/A	N/A	✓	✓	N/A	N/A
Private schools that are not registered as Private Vocational Schools must be accredited or certified or receive attestation from industry representatives.	N/A	N/A	✓	✓	N/A	N/A
Designated by the student financial assistance program in the home province or country	N/A	✓	N/A	✓	✓	✓

During the course of our audit we noted that the Program was in the process of strengthening the designation criteria. We interviewed officials from student financial assistance programs in five other provinces and noted that three of the five provinces indicated that they required private educational institutions to be in operation for at least one year to be eligible for designation. Such a requirement would provide some assurance on the financial viability of the institution and on the quality of their educational programs.

R44 We recommend that the Program strengthen their designation criteria by including the need for private schools to be operational for at least one year before being eligible for designation status.

DEPARTMENT RESPONSE

Under the new designation policy private schools must be operational for one year before being eligible for designation. This is effective the 2002/03 program year.

3.2 The Need To Ensure, For Private Training Institutions, That The Designation Criterion Regarding Accreditation, Certification Or Attestation By Industry Representatives Is Met

We reviewed the Program's assessment process for a sample of nine educational institutions seeking designation status for the 1999/00 academic year. We found that the Program appropriately assessed the educational institutions against the designation criteria with one exception. The one exception was a Manitoba based private training institution that was not required to be registered as a private vocational school. The Program's designation criteria includes the requirement that such institutions be accredited or certified by a pertinent government or industry body, or be in receipt of attestations from industry representatives. While the designation application form requires institutions to make these representations, we were advised that the Program typically would not verify this information.

In addition, we noted that the process for designating institutions located in the United States could be strengthened. A key element of this process is determining designation status in the home jurisdiction. In our view, obtaining information from the United States Department of Education website of designated institutions would provide more reliable information than the practice of reviewing institutional calendars.

R45 We recommend that the Program verify the representations made by private training institutions that are not registered as a private vocational school, regarding accreditation, certification, or attestation by industry representatives.

DEPARTMENT RESPONSE

The new designation policy requires verification of representations made by private training institutions.

3.3 The Need To Define And Communicate Program Expectations

Because designated educational institutions play an important role in student financial assistance programs, performance agreements or memorandums of understanding should be in place with each institution. Agreements should discuss the need to continue to comply with the designation criteria as well as other specified administrative and performance requirements. Memorandums of Understanding are important because they help ensure institutions understand their respective roles and responsibilities for maintaining designation status.

We found that the Program notified each institution in writing regarding the designation decision and provided them with pertinent material regarding the Manitoba Student Financial Assistance Program and its expectations. Program expectations, however, were limited to ongoing adherence to designation criteria and compliance with administrative requirements.

We identified the following concerns regarding the clarity and adequacy of Program expectations:

- 3.3.1 signed performance agreements or memorandums of understanding were not in place with any educational institution;
- 3.3.2 lack of expectations for the provision of debt counseling;
- 3.3.3 lack of established default threshold rates; and
- 3.3.4 lack of expectations for program completion and employment after graduation rates.

3.3.1 Memorandums Of Understanding Should Be In Place With Canadian Institutions

Signed performance agreements or memorandums of understanding were not in place with any educational institution. We interviewed officials from student financial assistance programs in five other provinces. We noted that three of the five provinces indicated that they required memorandums of understanding with both public and private educational institutions in Canada. Only one of these three provinces required that public institutions sign the memorandums of understanding (MOUs).

We believe that MOUs would be useful with all designated institutions particularly in light of our findings discussed in section 3.4. We recognize, however, that the need for MOUs is greatest for institutions that educate a significant number of loan recipients or that are experiencing high student default rates.

R46 We recommend that the Program negotiate MOUs with designated Canadian private and public educational institutions.

DEPARTMENT RESPONSE

Under the new designation policy MOUs will be negotiated with designated educational institutions in Manitoba. Student Aid will study the feasibility of expanding this process to include designated educational institutions outside of Manitoba through the Intergovernmental Consultative Committee on Student Financial Assistance (ICCSFA) Designation Policy Framework (a national approach to apply standards towards designating educational institutions).

R47 We recommend that a schedule be developed that would see MOUs in place within the next three years for designated Canadian educational institutions with a significant number of loan recipients and within 10 years for all others.

DEPARTMENT RESPONSE

Under the new designation policy MOUs will be negotiated with designated educational institutions in Manitoba within the next three years. Student

Aid will explore the feasibility of expanding this process to include designated educational institutions outside of Manitoba through the ICCSFA's Designation Policy Framework (a national approach to apply standards towards designating educational institutions).

R48 We recommend that compliance to the terms of the MOU be reflected in the criteria for maintaining designation status.

DEPARTMENT RESPONSE

Student Aid agrees with this recommendation and it will be implemented as part of the requirements of the new designation policy.

3.3.2 The Program Should Clarify Its Expectations Regarding Debt Counseling

While debt counseling is considered by Program officials to be a significant component in helping to minimize student loan delinquency rates, it is not a documented expectation in the Program's detailed guidebook to educational institutions.

Debt counseling refers to advice or information regarding the:

- need to minimize debt;
- requirement to repay all student loans;
- affect on a student's credit rating when they fail to repay student loans; and
- need to ensure earnings after graduation will be sufficient to meet debt obligations.

Program officials advised that most students who obtain student loans have limited or no access to debt counseling services. As such, in the Spring of 2001, the Program hired four student advisors to provide counseling services and to assist schools with implementing debt counseling.

Officials also spoke of a long-standing difference of opinion between many schools and Program officials regarding their shared responsibility to help minimize the number of students that eventually default on their student loans.

R49 We recommend that the Program clarify the responsibility of designated educational institutions regarding debt counseling and the dissemination of Program information and include these expectations in the MOUs.

DEPARTMENT RESPONSE

Student Aid and the Service Bureau presently provide debt counselling as part of the responsibilities of the Student Advisors and Service Bureau staff. Designated educational institutions will be required to provide this information upon student request.

3.3.3 The Program Should Establish Threshold Default Rates

We found that management had not identified threshold target default rates to trigger discussions with the educational institutions regarding remedial actions or de-designation. We believe that threshold rates are essential to allow the Program to more effectively and consistently assess and react to excessive default rates incurred by the former students of a particular institution. Default rates in excess of a specified target could be indicative of the quality of the institution's programs or possibly the lack of adequate debt counseling.

We acknowledge that the large number of out-of-Manitoba educational institutions with relatively few MSL recipients makes it difficult to use target default rates as a basis for de-designation. For example, schools with fewer than 10 MSL recipients can experience very high default rates if only four recipients default on their loans. In our view, institutional statistics reflecting relatively few MSL loan recipients does not allow for meaningful interpretation of the default rate. Therefore, we believe it would be reasonable for the Program to only monitor default rates for schools with a predetermined minimum number of MSL recipients in repayment status.

For the purposes of this discussion we refer to **delinquency rates** rather than **default rates**. This is because the two financial institutions that issued risk loans did not report actual default rates to the Program, but rather loans with no payments for 90 days or over.

As noted earlier, certain information on delinquency rates from one financial institution was not received by the Program. As a result, delinquency rates by type of educational institution were only available for risk loans held by one financial institution. Nonetheless, from this unaudited information, as summarized in Figure 23, we noted that, as at July 31, 2000 only two of 11 public educational institutions in Manitoba had delinquency rates of 10% or less. Because the vast majority of Manitoba students attend public institutions in Manitoba, we believe that the elevated delinquency rates suggest that greater inter-agency cooperation is needed.

FIGURE 23

Delinquency Rates by Type of Educational Institution
As at July 31, 2000 (Note 1)

	Institutions in Manitoba				Institutions Outside Manitoba			
Delinquency Rate (90 days or over)	**Private Institutions**		**Public Institutions**		**Private Institutions**		**Public Institutions**	
	#	%	#	%	#	%	#	%
0 - 10%	3	12	2	18	5	50	23	58
10.1 - 20%	7	28	6	55	2	20	12	30
20.1 - 30%	6	24	2	18	2	20	4	10
30.1 - 40%	6	24	1	9	1	10	1	2
40.1 - 50%	2	8	-	-	-	-	-	-
50.1 - 60%	1	4	-	-	-	-	-	-
Total	**25**	**100**	**11**	**100**	**10**	**100**	**40**	**100**

Note 1: Institutions with 10 or more former students who have loans in repayment status

Source: Report submitted to the Program by one of two financial institutions

Defining Default Rates

Based on our interviews with program officials from five other provinces, we noted that one province defined loan default as a loan where the former student has made no payments for at least 60 days. Two other provinces used 90 days or more as the threshold and the other two jurisdictions used 120 days or more. Another alternative is that default rates can be defined as the number of loans in default expressed as a percentage of the number of loans issued or the dollar amount of loans in default expressed as a percentage of the total initial principal of loans issued. An additional alternative for calculating default rates is basing the rate on only former students who have been in repayment status approximately two years as opposed to all former students who are in repayment status.

In addition, we noted that, as at July 31, 2000 only three of 25 private institutions in Manitoba had delinquency rates of 10% or less. This suggests to us that the Program must be much more diligent in ensuring that its expectations are met.

Schools with unacceptable default rates should be required to prepare a default prevention plan. If the institution's default rates continue to be unacceptable, the Program should consider de-designating the institution or the specific program of study within that institution with unacceptable default rates. For public Manitoba institutions, default rate information should be provided to the Council on Post-Secondary Education (the funding source for such institutions). In the case of out-of-province institutions, this information would likely be of interest to student financial assistance programs in their home province.

In establishing threshold default rates, the Program should ensure that its threshold rates are in line with those of other provincial student financial assistance programs. We acknowledge, however, that the lack of a national definition for how default rates should be calculated make inter-provincial comparisons difficult.

R50 We recommend that the Program:

- **establish threshold default rates;**
- **calculate annually, the default rates by educational institution where the number of MSL recipients in repayment status exceeds a predetermined minimum level; and**
- **take appropriate corrective actions when educational institutions exceed or are near the threshold rates.**

DEPARTMENT RESPONSE

Under the new designation policy Student Aid will work with educational institutions that have high levels of defaulted loans to develop an appropriate course of action to reduce student loan defaults. Student Aid will be monitoring levels of student loan defaults by educational institution and program of studies.

3.3.4 The Program Should Establish And Monitor "Acceptable" Program Of Study Completion And Employment After Graduation Rates

We found that the Program did not require that designated educational institutions in Manitoba develop and monitor program of study completion and employment after graduation rates. This information would be useful to the Program when analyzing default rates, and to students, when selecting an educational program and institution. We noted that the Private Vocational Schools Branch monitors program completion rates for registered private vocational schools in Manitoba. This information, however, is not shared with the Program.

We noted that three of the provinces that we interviewed indicated that they monitored program completion and employment after graduation rates. Two of these provinces have established acceptable rates for these two indicators. The other two provinces that we interviewed stated that other branches of the Ministry monitor program completion and employment after graduation rates but that there are no acceptable rates established for these indicators.

R51 We recommend that the Program work collaboratively with individual Manitoba educational institutions to establish acceptable program completion and employment after graduation rates for their programs of study and monitor educational institutions against these rates on an annual basis.

DEPARTMENT RESPONSE

Student Aid will collaborate with institutions to develop performance indicators that public and private institutions will need to work towards. Examples of indicators include default rates, student withdrawal, *completion and employment rates. Based on these indicators, performance standards will be developed. Student Aid will review and monitor this information and will work with the educational institutions to develop an appropriate course of action, if warranted.*

3.4 The Need To Monitor Designated Educational Institutions For Compliance With Program Expectations

Effective monitoring practices include:

- ensuring required information is received in the desired format and in a timely fashion;
- pursuing information that is not received; and
- taking appropriate action when requirements are not met.

Effective monitoring practices are important because they help ensure that the terms and conditions of the relationship are respected. In so doing, this helps contribute to achieving a program's desired outcomes.

We have structured our discussion of the Program's monitoring efforts in accordance with its two expectations of designated institutions as follows:

3.4.1 adherence to designation criteria, and
3.4.2 compliance to administrative requirements.

3.4.1 The Program Should Better Monitor For Ongoing Compliance With Designation Criteria

With respect to ensuring the continuing compliance with designation criteria, we found that as part of its loan approval process, as discussed in section 1.2, for our sample of 100 students, the Program appropriately reviewed designated institutions for continuing compliance with the designation criterion dealing with program of study. The Program, however, did not monitor for continuing compliance with the other three designation criteria. Program officials advised us of a compensating factor regarding the ongoing registration of private vocational schools. Officials indicated HRDC would inform them when a private Canadian educational institution was de-designated by the student financial assistance program in the home province. Officials further indicated that the Private Vocational Schools branch of Manitoba Education, Training and Youth would advise them on an on-going basis if a school had been de-registered in Manitoba. Based on our review of the Program's designation files for the 1999/00 academic year, we noted that the Program was immediately notified by the Private Vocational Schools branch of one private vocational school in Manitoba that had been de-registered.

In our view, the Program should assess ongoing compliance by educational institutions with its designation criteria at least every five years. In our discussions with five other provinces, two indicated that they conduct annual reviews.

We appreciate that monitoring approximately 1,600 institutions, even over a five year cycle, can be administratively onerous. We believe, however, that applying a risk-based approach to the review process could help reduce or minimize the monitoring workload. Educational institutions could be identified as low risk or high risk depending on factors such as the average number of students receiving MSL attending the institution over the past five years, default rates of former students, and whether the institution has historically had any non-compliance issues with the administrative requirements. Institutions identified as low risk could be reviewed less frequently. In addition, the monitoring workload could be reduced if the Program automatically de-designated all institutions that had no students receiving assistance from the Program for five consecutive years. The Program's information system indicates that there are approximately 450 such designated institutions. Based on our review of the Program's listing of these designated institutions, the number of US and International schools to be monitored would decrease significantly if the above noted institutions were removed.

R52 We recommend that the Program perform, on a cyclical basis, structured reviews to determine whether designated educational institutions continue to comply with all designation criteria.

DEPARTMENT RESPONSE

Student Aid agrees and will be developing a re-designation policy for educational institutions/programs in order to review existing designated educational institutions.

R53 We recommend that the Program de-designate private educational institutions that have not enrolled an MSL recipient for five consecutive years.

DEPARTMENT RESPONSE

Effective January 2002, Student Aid reviews private educational institutions that have not enrolled an MSL recipient for five consecutive years to determine if de-designation is appropriate. In most cases Student Aid would proceed to de-designate these institutions.

3.4.2 The Program Should Monitor For Compliance With Administrative Requirements

While the Program had established administrative requirements, we found that the Program did not set specific reporting timeline expectations and did not conduct any monitoring procedures. As such, the Program could not be fully aware of the extent to which designated institutions continued to meet its administrative requirements or whether it was receiving the information it required on a timely basis. As we noted in Section 1.3.4.1, some institutions were either not providing information required by the Program or not providing information in a timely manner. The failure to advise the Program of student withdrawals, in a timely manner, can result in overaward situations and/or prevent the timely recovery of these funds.

We believe that information on institutional compliance with administrative requirements would be useful to the Program, both in its discussions with the institutions and, for public institutions, in its discussions with the Council on Post-Secondary Education (the funding source for such institutions). In the case of out-of-province institutions, this information would likely be of interest to student financial assistance programs in their home provinces.

For instances of significant non-compliance with the administrative requirements by Manitoba private institutions, the institution should be required to develop a plan to remedy the causes for non-compliance. If the area of non-compliance with the administrative requirements is not addressed the Program should consider de-designating the institution. For public Manitoba institutions, compliance information should be provided to the Council on Post-Secondary Education. In the case of out-of-province institutions, this information would likely be of interest to student financial assistance programs in their home provinces.

R54 We recommend that the Program gather information on the extent and timeliness with which designated educational institutions comply with administrative requirements. When performance is below expectations, appropriate actions should be initiated.

DEPARTMENT RESPONSE

Student Aid agrees with this recommendation and will develop a process to gather the information and take appropriate action as warranted.