

### 3.

## EDUCATION - HIGHER EDUCATION AND ADULT LEARNING BRANCH

### BACKGROUND

**3.1** The activities, programs and services provided by the Higher Education and Adult Learning Branch are diverse. This Branch of the Department of Education manages the adult learning initiatives, private career colleges, rehabilitation training, student assistance program and apprenticeship training. Higher Education and Adult Learning acts as the liaison between the Department and Regional Library Boards and certifies teachers for the Nova Scotia public school system. The Branch is also responsible for liaison with the Nova Scotia Community College and the Collège de l'Acadie. In addition, this Branch of the Department is also responsible for administration of Community College grants and allocation of funds to degree-granting institutions through the Universities Assistance vote.

**3.2** During the last two years the Department of Education has been in the process of changing its organizational structure. See the current organization chart in Exhibit 3.1. The Higher Education and Adult Learning Branch was formed in 2001-02 from Divisions within the former Training and Financial Assistance Branch, Policy Branch, Youth Secretariat, and the Council on Higher Education. Branch expenditures for the past two fiscal periods are shown in Exhibit 3.2.

**3.3** Our audit focused on the Student Assistance, Nova Scotia Provincial Library (NSPL) and Private Career Colleges Divisions of the Branch.

### RESULTS IN BRIEF

**3.4** The following are the principal observations from this audit.

- The Department has not collected appropriate data or developed an appropriate model to determine the Province's likely exposure for fully guaranteed loans that may default. At the present time, as was the case in 1997, our audit determined that loan default information supplied from the bank was insufficient to fully meet the Department's needs. We recommend that the Department assess and determine ongoing information needs and establish systems and processes to collect this information.
- Students are no longer required to submit copies of tax returns with their student loan applications. The Department did not perform an adequate assessment of the risks associated with moving to less stringent supporting documentation for loan applications prior to making that decision. We recommend that the Student Assistance Division thoroughly review the potential implications and risks, and identify actions required by the Division to mitigate those risks. We also recommend that the Student Assistance Division develop a formalized audit approach, and consider the merits of accessing electronic information from the Canada Customs and Revenue Agency to verify income.

- We recommend that the Branch and individual Divisions prepare operational plans that provide a clear link between the overall Departmental goals and priorities and the more specific goals, priorities, and activities of the Branch and Divisions. These Branch and Divisional priorities, goals and objectives should support and facilitate achievement of those identified for the Department.
- The Department has not established internal processes for formally measuring and reporting on Divisional performance and outcomes to the House of Assembly and the public. Such information would help assess the effectiveness and efficiency of Divisional operations and fulfill the accountability responsibilities of the Department.
- The Private Career Colleges Division is currently not meeting its target of annual inspections of all colleges and also should improve its documentation relating to the monitoring of college financial statements. These improvements would help to protect the interests of students.

## AUDIT SCOPE

**3.5** Our audit focused on administration of Student Aid, the Nova Scotia Provincial Library and regulation of Private Career Colleges. These programs are administered by the Higher Education and Adult Learning Branch of the Department of Education.

**3.6** The specific objectives of this assignment were to review and assess:

- the operational planning processes;
- the accountability relationships with service providers, funded agencies and within the Department of Education;
- the adequacy of performance reporting on the operation of programs;
- whether systems and practices relating to the grant processes for the Provincial Library and Student Aid programs provide for adequate controls and compliance with legislation, Departmental policies and agreements; and
- the status of findings from previous Reports of the Auditor General in these areas.

**3.7** The audit criteria were taken from recognized sources including the Office of the Auditor General of Canada's *Financial Management Capability Model*; the Office of the Auditor General of Canada's *A Framework for Identifying Risk in Grant and Contribution Programs*; the Office of the Auditor General of Canada and Treasury Board Secretariat's *Modernizing Accountability Practices in the Public Sector*; the Canadian Institute of Chartered Accountants Criteria of Control Board's *Guidance on Control*; and the Canadian Institute of Chartered Accountant's *Public Sector Accounting Handbook*.

**3.8** The general criteria used in our review are summarized as follows.

- The Branch establishes and communicates its operational goals and objectives. These should include measurable performance targets and indicators against which performance is monitored.

- When significant changes occur, management assesses, documents and reviews them to determine how they will affect resources, risk, the achievement of operational objectives and the control framework.
- The roles and responsibilities of the parties in the accountability relationship should be well understood and agreed upon.
- Credible and timely information should be reported to demonstrate the performance achieved and should be used to monitor performance.
- For grant programs, program officers should understand the terms and conditions; funding should be used for the purposes agreed; money owed to the government should be collected; and grants provided should be in compliance with the requirements of the applicable Acts and Regulations.
- Financial reporting of Student Aid grants, expenses and liabilities should be in compliance with the Canadian Institute of Chartered Accountants' Public Sector Accounting Handbook requirements.

## PRINCIPAL FINDINGS

### *Branch-wide Findings*

**3.9** *Departmental Business Plan* - The Department of Education prepares an annual Business Plan using the format and template developed by an Interdepartmental Policy Advisory Council. The Plan includes a mission statement, core business functions, goals, priorities and outcome measures. It is written from the Departmental perspective and designed to meet the Department's accountability obligations to central government agencies.

**3.10** The Department of Education has many significant responsibilities in addition to the programs examined as part of our audit, including overall responsibility for the public school system, assistance to universities, and the Nova Scotia Community College. The 2001-02 Departmental Business Plan established six broad Departmental goals which appear to be consistent with the activities of the Student Assistance, NSPL and Private Career Colleges Divisions.

**3.11** The Departmental Business Plan is highly summarized. Individual Branches and Divisions should prepare operational plans. Operational plans would provide detail of the more specific goals, priorities, and activities of the Branch or Division and a linkage to the overall Departmental goals, priorities and activities.

**3.12** An operational plan typically includes goals, priorities and objectives for the Branch or Division for the current year; expected results; activities to be performed in delivering the product or service; a realistic time schedule for carrying out the activities; key milestones to be achieved; resources needed; assignment of responsibilities; performance measures and targets; and accountability reporting requirements to senior management. These plans should be approved by senior management.

**3.13** *Performance reporting* - In its simplest terms, accountability means the obligation to answer for an assigned responsibility. An accountability relationship involves at least two parties, one who allocates or assigns responsibility, and one who accepts it, with an understanding to report upon results or outcomes. Accountability relationships exist at many levels at the Department of Education - Department to central authorities and the House of Assembly, Branch management to senior Department management, and Division management to Branch management.

**3.14** The reporting of results or outcomes against a pre-established target level of activity is a key element of the accountability relationship. The reporting of performance is very important to ensure that all parties are fulfilling their respective responsibilities.

**3.15** The 2001-02 Business Plan of the Department of Education contains several performance indicators and measures for the Department as a whole. In many cases baseline data and targets have yet to be developed. The Department's Business Plan includes two measures specific to Divisions reviewed as part of this audit.

- To determine the success of providing a relevant and high quality training system by measuring the number of schools (private career colleges) registered.
- To assess the improved access to education and training by comparing the debt level of Nova Scotia students at the time of graduation to the debt level of students in the other provinces in Atlantic Canada.

**3.16** As with most Departmental measures, the baseline data and targets have yet to be developed. Once set, the targets are to be achieved in fiscal 2004-05.

**3.17** The Department has not established internal processes for formally measuring and reporting on Divisional performance and outcomes to Department management. The presentation and approval of Divisional operational plans, including performance indicators and targets, to senior management would serve to provide both Branch and Department senior management with better information to assess the effectiveness and efficiency of Divisional operations and fulfill the accountability responsibilities of the reporting party.

***Recommendation 3.1***

*We recommend that the Branch and individual Divisions prepare operational plans to provide a clear link between the overall Departmental goals and priorities and the more specific goals, priorities, and activities of the Branch and Divisions. The plans should include measurable performance indicators and targets. The Divisions should each report performance in relation to the plan.*

***Student Assistance***

**3.18** *Background* - The purpose of the student assistance program is to provide financial assistance to eligible students, thereby providing greater access to post-secondary education. The Student Assistance Division administers Canada Student Loans (CSLs), Nova Scotia Student Loans (NSSLs) and the Canada Millennium Scholarship. The Division also oversees disbursements of Canada Study Grants for students. Significant legislation and agreements include the Student Aid Act, Millennium Scholarship Foundation Agreement and the Agreement and Memorandums of Understanding between the Royal Bank of Canada and Province of Nova Scotia.

**3.19** The Nova Scotia Student Loan Program was established in 1993. For the first few years loans were issued by the Canadian Imperial Bank of Commerce. Since 1997, the Royal Bank has been the sole issuer of loans. The first agreement with the Royal Bank of Canada was signed in 1996. Since that time, there have been a number of amendments to that agreement and three Memorandums of Understanding. The current Memorandum of Understanding extends the Royal Bank's financing and management of the N.S. Student Loan portfolio to July 31, 2003.

**3.20** The Province pays interest to the Bank while the student attends school and for six months after the completion of studies at an interest rate equal to the Bank's prime rate plus .25%. Students are required to commence loan repayment after that date at an interest rate of Bank prime plus 2.5% or 5.0% depending on whether a variable or fixed interest rate is selected by the borrower. The standard repayment period of a student loan can be as long as nine and one-half years depending on the amount of the loan. For 2001-02, the Province paid \$4.1 million to the Royal Bank excluding interest relief of \$2.6 million and risk premiums of \$1.5 million.

**3.21** The Bank bears the risk for loans negotiated up to July 31, 2000, but receives a one-time fixed fee, or risk premium, of 10% of the loan balance at the time repayment by the student commences. The Province bears the risk for loans negotiated subsequent to that date. As at July 31, 2002, guaranteed loans outstanding of \$76.0 million represented 45.9% of the \$165.6 million total balance of loans outstanding.

**3.22** Our last audit of the Student Assistance program was conducted and reported on in 1997 (see Chapter 10 of the 1997 Report of the Auditor General). Since that time there have been several significant changes to the program. Exhibit 3.7 provides a follow-up on some of the issues identified in our 1997 audit.

**3.23** Actual net expenditures in 2001-02 for the Student Assistance Division were \$13.3 million (2000-01 - \$20.4 million) (see Exhibit 3.2). Included in the expenditures of the Student Assistance program are amounts relating to the establishment of a reserve to provide for future NSSL defaults. In 2000-01, \$12 million was added to the reserve and in 2001-02, \$4 million was added for a total current reserve of \$16 million. For the 2001-02 application year (August 1<sup>st</sup> to July 31<sup>st</sup>) the Division processed 21,720 loan applications, disbursing \$38.7 million for 10,233 NSSLs. Currently the Division has a full-time staff complement of 34.

**3.24** *Divisional plans* - The Student Assistance Division prepares an annual work plan highlighting key dates or time frames for important tasks and functions. This work plan is for Divisional use. It includes some of the elements of the typical operational plan described in paragraph 3.12.

**3.25** *Roles and responsibilities* - The Province has partnered with the Royal Bank in providing NSSLs as the Province does not issue the loan directly to the student, but issues a Certificate of Eligibility to the student for presentation to the Royal Bank (the sole lender of student loans). The current legislation does not permit the Department to issue student loans directly. The Department must use a third-party lender. The roles and responsibilities of both parties are detailed in the Agreement and Memorandums of Understanding between the Royal Bank and the Department of Education. These responsibilities seem to be well understood by the Department, students and those in the educational field. Student responsibilities relative to the Certificate of Eligibility are documented on the back of the Certificate.

**3.26** Student Assistance also provides other financial assistance to students. Descriptions of other assistance and the roles and responsibilities of students and the Department are clearly detailed on the Department's website, and made available at educational institutions.

**3.27** *Performance reporting and monitoring of operations* - Student Assistance does not produce its own annual report. It is included in the Annual Report of the Nova Scotia Council on Higher Education (now the Nova Scotia Advisory Board on Colleges and Universities). The most recent Report is dated 2000 and contains financial data from 1998-99 for Student Assistance. Results achieved are not compared to targets or standards.

**3.28** Student Assistance monitors activities from applications received to Certificates issued. Workload reassignment decisions are made on a daily basis to smooth workload responsibilities. Status of Certificates issued is monitored monthly to ensure management is aware of any variances on a timely basis.

**3.29** *Current Memorandum of Understanding with Royal Bank* - Amendments since the original agreement in 1996 have extended the partnership arrangement with certain alterations (e.g., increasing the risk premium rate, Province fully guaranteeing loans). The current partnership arrangement is in place until July 31, 2003.

**3.30** A Memorandum of Understanding was signed in July 2001, and extended in January 2002, setting out the parameters for exploration of a new partnership arrangement. Both parties agreed that the Bank's loan accounting system is inadequate to meet the Province's NSSL information and reporting requirements and a new system is required. The Province and Bank both have an interest in finding an Atlantic region solution to the problem of administering student loans.

**3.31** *Provincial loan guarantees* - The Province fully guarantees all student loans negotiated from August 1, 2000 onward. This is a major change in the Student Assistance program that has had a significant impact on the financial exposure of the Province relative to student loans. The Province now bears the risk for those loans that default and therefore no longer pays a risk premium to the Bank on loans negotiated since August 1, 2000. The responsibility for collection of defaulted loans by the Province has been assigned to the Department of Service Nova Scotia and Municipal Relations and has not been included in this audit. See Exhibits 3.4 through 3.6 for information on the student loan portfolio.

**3.32** The Royal Bank of Canada provides proof of due diligence related to collection procedures for defaulted loans at the time payment is requested from the Province. Based on our review of a sample of Student Assistance files supporting loan default payments, evidence of collection activity has been provided and appears reasonable. We noted as a result of our review that several claims for defaulted loans were paid to the Royal Bank prior to the 180-day period established in the Memorandum of Understanding. We have been informed by management that this error was subsequently corrected.

**3.33** Due to the fact that the student loans disbursed by the Royal Bank of Canada are guaranteed by the Province, generally accepted accounting principles require that the Province recognize any potential liability and corresponding expenditure associated with the guarantees at the time of the issuance of the loan. As at March 31, 2001, the Province (in Schedule 6 to the Public Accounts) has disclosed guarantees of \$33.3 million and recognized a related liability of \$12 million. To accurately estimate the Province's possible financial exposure from this program change and determine whether the Province is appropriately providing for this liability, information on historical default rates over the life of loans should be available. The Province currently does not have such information. Division management has indicated that other provinces have also experienced difficulty in obtaining such information from banks. The Department, when negotiating future agreements, should ensure that all its information needs have been considered.

**3.34** The default rates vary by type of institution as shown in Exhibit 3.6 and also for specific institutions. The Student Assistance Division proposed a new Student Assistance Designation Policy to help ensure the Student Assistance Program is sustainable over time. The proposed policy states "*Student financial assistance is limited and therefore, designation criteria should allow for the cessation or restriction of taxpayers investment when the likelihood of loan repayment is not acceptable.*" An institution's default rate is proposed as one of the tools for measuring the likelihood of loan repayment. A Designation Policy is needed to provide for the delivery of the NSSL program with due regard for economy and efficiency. The proposed policy has not been approved by Executive Council.

***Recommendation 3.2***

*We recommend that the Department of Education continue to pursue a Designation Policy for the Student Assistance program.*

**3.35** The Department has not collected appropriate data or developed an appropriate model to determine the Province's exposure for guaranteed loans that default. At the present time, as was the case in 1997, our audit determined that loan default information supplied by the Royal Bank of Canada was insufficient to fully meet the Department's needs.

***Recommendation 3.3***

*We recommend that the Department assess its information needs related to historical default rates for student assistance and establish systems and processes to collect this information.*

**3.36** *Verification of interest billings* - The Province of Nova Scotia pays the interest on student loans while students are studying and for six months after completion of studies. Interest payments to the Royal Bank for 2001-02 were \$3.9 million. The Department performs an electronic edit check on Bank interest billings. In our 1997 Report we recommended that the Student Assistance Division change the tolerance level accepted as 'normal' in the edit procedure. At that time only those Bank interest charges on individual loans that varied by over 100% from the interest amount calculated by the Province were followed up for explanation. We have been advised that the tolerance level is soon to be reduced to 25% variance.

***Recommendation 3.4***

*We recommend that the Department improve its electronic edit processes related to interest charges billed by the Bank to the Province.*

**3.37** *Interest relief accrual* - The Province has an interest relief program which provides for an additional 30-month interest-free period, at any time during the repayment period, should the borrower be unemployed or underemployed. Loans on interest relief as at September 30, 2002 were approximately \$20.6 million or 37.2% of the total loans eligible. The Province recorded \$2.6 million in interest relief expenditures in 2001-02.

**3.38** As in 1997, we found that expenditures for interest relief continue to be recognized on a cash basis as interest billings are received from the Bank. As student loans are issued, there is a potential liability to the Province for interest relief claims associated with those loans that may become eligible under the interest relief program during the repayment period.

***Recommendation 3.5***

*We recommend that the Department accrue an estimate of future interest relief claims, based on past experience, in the year in which student loans are issued.*

**3.39** *Student loan application verification* - Since application year 1997, the Student Assistance Division has not requested many of the documents that were once used in verifying the financial status of an applicant and parents or spouse. Source documents such as income tax returns, divorce

agreements, and childcare receipts are not required to be submitted to the Student Assistance Division. The Student Assistance Division would only require previous year income tax detail if the applicant was submitting a reduced income claim or was being audited. Instead, applicants self-declare all pertinent financial information on the application form. The Student Assistance Division does not verify the applicant's or supporting person's income with the Canada Customs and Revenue Agency (CCRA) files. This income verification procedure is currently being performed by the majority of other provinces. Department of Education management have indicated that they are currently investigating the possibility of obtaining income information from CCRA.

**3.40** To compensate for using self-declared financial information in the application process, the Student Assistance Division planned to perform audits of applicants' submitted information. All applicants are notified that application information submitted to the Student Assistance Division is subject to audit. In addition, all applicants 22 years or older are required to successfully pass a credit check prior to being approved for a loan.

**3.41** The Student Assistance Division's audit planning is inadequate as there is no specific plan or schedule of audits to be conducted. Furthermore, the Student Assistance Division does not perform formal risk assessments in determining where audit effort should be focused. To date, only applications submitted electronically have been subject to any audit procedures. Therefore, 31% of loan applications (those not submitted electronically) have not been included in Student Assistance's audit initiatives. The Student Assistance Division's total audit efforts to date have consisted of requesting supporting receipts from 91 applicants claiming child care costs. No other information has been audited. To obtain reasonable assurance with respect to applicant information, the Student Assistance Division should develop a formalized audit approach.

**3.42** As part of our audit procedures we interviewed Student Assistance Division management to determine the rationale used in support of the decision to request significantly less supporting documentation from applicants. Management indicated that this move was made to help speed up the processing of applications consistent with the move toward the new web-based application system. There is no documentation of risk analysis and expected benefits of this decision. The average processing time for loan applications was 21.6 days for application year 1996-97 and 13.6 days for application year 2001-02.

**3.43** We understand, through discussions with legislative auditors in other provinces, that most provinces either request copies of tax returns from all student loan applicants and parents, or verify reported income by matching with electronic tax records obtained from the Canada Customs and Revenue Agency. Certain provinces also routinely search electronic databases to determine if the applicant owns assets such as cars. In those few provinces where a sample of applicants is selected for audit and income verification, the percentage of applicants audited is larger than in Nova Scotia.

**3.44** Based on our discussions with Division management, it appears that an adequate assessment of the risks associated with moving to less stringent supporting documentation for loan applications has not been performed. The Student Assistance Division should thoroughly review the potential implications and risks and identify actions required by the Division to mitigate those risks.

***Recommendation 3.6***

*We recommend that the Department perform an analysis of risks affecting the Student Assistance program, and implement appropriate preventive and detective controls. The Department should consider either verifying the income of Student Assistance applicants and supporting persons through electronic comparisons with CCRA data and/or establishing a formal, comprehensive audit regime.*

**3.45** *On-line applications* - Students now have the ability to apply for NSSLs on-line. Application year 2001-02 was the first year for a web-based application system. On-line applicants self-declare financial information. The web application system performs various edit checks on data submitted electronically by the applicant. The validity of social insurance numbers and sufficiency of academic course load are edit checks automatically performed on all electronically submitted applications. However, the Student Assistance Division was unable to produce a complete list of automatic edit checks. We suggest that the Student Assistance Division formalize and document on-line application control procedures.

**3.46** At the time of writing this Report all applications received on-line had to be manually entered into Student Assistance's electronic loan processing system. We understand, based on our discussions with Division management, that they are currently in the process of acquiring an electronic interface between the two applications to eliminate the need to re-enter the information.

**3.47** *Computer environment* - We provided Student Assistance information technology staff questionnaires pertaining to the system of computer environment controls. Based on the responses received to the questionnaires and subsequent discussions with management, we found the controls as described to us to be adequate.

**3.48** *Testing of student assistance applications* - We tested 25 loan applications for student eligibility, accuracy of loan calculations, proper supporting documentation in the student file and timeliness of processing. Based on our analysis, 23 of the 25 student loans were processed appropriately. We noted one instance where the Student Assistance Division failed to consider all members of an applicant's family for the purpose of determining the applicant's parental contribution. To ensure that up-to-date information is used in loan calculations, we believe that the Student Assistance Division should improve its controls over updating of permanent data.

**3.49** Our testing also revealed that the Student Assistance Division approved the disbursement of financial aid to a student with a history of academic problems, prior to ensuring current eligibility. We have been advised by the Division that the computer system does not flag the files of students with academic deficiencies. Files must be manually identified by the assessor. This weakness in the approval process for disbursements should be remedied.

### ***Provincial Library***

**3.50** The Nova Scotia Provincial Library (NSPL) provides leadership in coordinating library services throughout Nova Scotia. Providing leadership at Provincial and national levels on matters affecting libraries, promoting resource sharing and enhanced document delivery among N.S. libraries, providing funding support to regional public libraries through various grant programs and developing and maintaining a high quality database of Nova Scotia regional library materials are all responsibilities of this Division.

**3.51** Our last audit of the Nova Scotia Provincial Library was conducted and reported on in the 1995 Report of the Auditor General - Chapter 6.

**3.52** Actual net expenditures in 2001-02 for this Division were \$1.5 million (see Exhibit 3.2). Grants to Regional Library Boards (RLBs) for 2001-02 were \$10.0 million (see Exhibit 3.3). Currently the Division has a full-time staff complement of 22.

**3.53** *Divisional plans* - The Nova Scotia Provincial Library establishes annual goals and objectives in conjunction with the Council of Regional Librarians, within the framework of the Department's priorities. Goals are communicated to the regional libraries as part of the annual reporting process and to the Department via the Provincial Librarian's performance management process. Our review of the annual goals and objectives indicated that they support those of the Department.

**3.54** *Roles and responsibilities* - The Libraries Act establishes very broad responsibilities for the Nova Scotia Provincial Library. The Provincial Library is to coordinate the activities of Provincially-funded libraries, establish and provide for the orderly operation of Regional Public Libraries and provide support services to libraries in the Province. It has been providing these services for over 50 years. NSPL management believe NSPL and Regional Library Boards are clear on their respective roles.

**3.55** *Performance reporting and monitoring of operations* - The Nova Scotia Provincial Library prepares an annual report which is usually published before the end of the following fiscal year. The report is available on the Provincial Library website, as well as in print. This reporting within 12 months of the fiscal year-end is reasonably timely and the Nova Scotia Provincial Library should continue to work towards producing the report as soon as possible after year end.

**3.56** The report contains statistics of Provincial Library expenditures and services. It does not, however, measure these against budget plans or expected levels of activity. The report includes statistics on Regional Library Board outputs and funding which provide a basis for comparison between Boards.

**3.57** *Disclosure of objectives and goals* - In 1995 we recommended that the NSPL annual report include information on goals and objectives for current and future periods, as well as results for the current year. Our review of NSPL's 2000-01 Annual Report indicates that although the Report does disclose high-level initiatives, specific goals and objectives are still not being reported.

**3.58** The Provincial Library monitors the workloads of its cataloguing and acquisition units on a weekly basis. This is to allow for workflow adjustments if processing and turnaround times are not being achieved. The monitoring is for Divisional use only.

**3.59** *Reporting from RLBs* - NSPL requires annual reporting from Regional Library Boards on achievement of standards. The statistics reported (e.g., size of collection, total staff FTEs, etc.) are tracked over time and against established standards of service for Nova Scotia public libraries. In addition, the Department requires that the RLBs provide audited financial statements.

**3.60** *Long-term planning* - A three-year funding arrangement for Regional Library Boards was implemented in 1995-96. Regional Public Library Funding Review Committees in 1994, 1998 and 2000 each prepared reports with three-year funding recommendations, all of which were accepted by the government. During this period, Boards performed long-range planning activities. However, in recent years previously agreed-upon three-year funding levels have not been approved during the Estimates process. The Regional Library Boards indicated that government's return to annual funding allocations has reduced the focus on long-term planning.

**3.61** *Testing of grants* - A small sample of 2001-02 grants to Regional Library Boards was selected for testing. We recalculated the grants in accordance with the current funding formula. For the sample tested, the Regional Library Board grants were determined in accordance with the established funding formula.

### ***Private Career Colleges***

**3.62** The Private Career Colleges Division of the Department of Education registers and monitors private career colleges under the Private Career Colleges Act and Regulations enacted in 1999. We last audited this Division in 1996 and concluded that the practice of registering non-trade schools exceeded the regulatory authority defined in the Trade Schools Regulation Act. In 1998 Bill 38, An Act to Regulate Private Career Colleges, remedied this deficiency.

**3.63** The Division's actual net expenditures in 2001-02 were \$0.4 million (see Exhibit 3.2) and it has a full-time staff complement of five. Although the expenditures are not significant, the Division's responsibilities for licensing and regulating private career colleges are very important.

**3.64** *Divisional plans* - The Private Career Colleges Division does not prepare annual priorities, goals and objectives. Divisional management have indicated that the goals and mandate of the Division are clearly documented in the Private Career Colleges Act and Operations Guide which eliminates the requirement for formal annual Divisional plans. We believe that annual operational plans would assist the Division in setting and achieving specific goals for the period.

**3.65** *Roles and responsibilities* - The Private Career Colleges Regulation Act sets out the role of the Manager of Private Career Colleges. The primary role is to review applications for registration. The Division has prepared an Operations Guide which reinforces the role and provides more detail on responsibilities. The Guide also clearly documents the roles and responsibilities of the private career colleges.

**3.66** *Performance reporting and monitoring of operations* - The Private Career Colleges Division does not issue an annual report, nor is it included in other annual reports of the Department. An annual report would improve accountability for operations and results achieved.

***Recommendation 3.7***

*We recommend that the Private Career Colleges Division prepare an annual report on its operations and results for inclusion in the Annual Report of the Department of Education.*

**3.67** *Performance standards for private career colleges* - Our 1996 audit revealed that the Division was not monitoring performance and outcome measures for trade schools (i.e., graduation rates or employment rates). The Private Career Colleges Division currently monitors graduation rates, as all registered colleges must report on the academic success of students.

**3.68** *Industry reviews* - All private career colleges are required to have an industry review of program curriculum as part of the registration process. The Operations Guide provides clear direction to private career colleges on who is qualified to perform the review. The Division does not have a formal documented process for assessing the acceptability of the reviewer. However, the Division performs this assessment and has challenged the acceptability of some industry reviewers. To ensure that industry reviews are objective and accurate, we believe the Division should institute formalized procedures to assess both the qualifications of the reviewer and relationship with the school being reviewed.

**3.69** *Frequency of inspections and audits* - Section 23 of the Private Career Colleges Regulation Act allows for a Ministerial designate to inspect private career colleges to ensure compliance with legislation. Since our 1996 audit, the Private Career Colleges Division developed a policy establishing the frequency and scope of these inspections. The Private Career Colleges Operations Guide states that "*representatives of the PCC Division will conduct an annual inspection at private career colleges*" and describes what is involved. Based on our review of a sample of completed inspections in 2001, the Division is conducting inspections which are consistent with the policy. However, management has informed us that in 2001 the Division experienced a staff shortage, so only 19 of the 51 registered career colleges were inspected. The Division has since hired two additional inspectors and an operational plan for inspecting all career colleges by the end of 2002 is in place.

**3.70** *Sufficiency of bond documentation* - Every private career college must provide a surety bond or irrevocable letter of credit as a condition of registration. Surety bonds expire yearly. The required amount of the bond is determined by multiplying tuition cost by the number of students attending the college, to a maximum amount of \$75,000. Testing of a sample of four college files revealed the required bond was provided.

**3.71** *Training completion fund* - Section 33 of the Private Career Colleges Regulation Act establishes a training completion fund. The purpose of the Fund is to provide for the completion of training, as contracted by students, in the event of college closure due to insolvency. The registered private career colleges submit payments in the amount of 1% of all tuition collected. As at March 31, 2002 the fund balance was \$301,676.

**3.72** *Inadequate financial review* - One mandate of the Division is to “ensure that students’ interests are being protected as recipients of training programs.” By registering only financially stable career colleges, the Division attempts to ensure students can complete their training programs without the worry of institutional insolvency. A detailed financial statement review of all registered colleges is an important step in protecting students’ interests. However, our audit indicated that the Division’s financial statement review and analysis procedures are not documented and are insufficient. Furthermore, financial statements are not required to be audited. An audit would help to ensure that financial information is accurate and reliable. Audited financial statements are not currently required by the Regulations under the Act. Implementing such a requirement would require a change in Regulations. The Department does not provide funding to the colleges. Because there is a cost associated with audits, the decision to require audited financial statements is more complex than for other programs where the Province provides the funding.

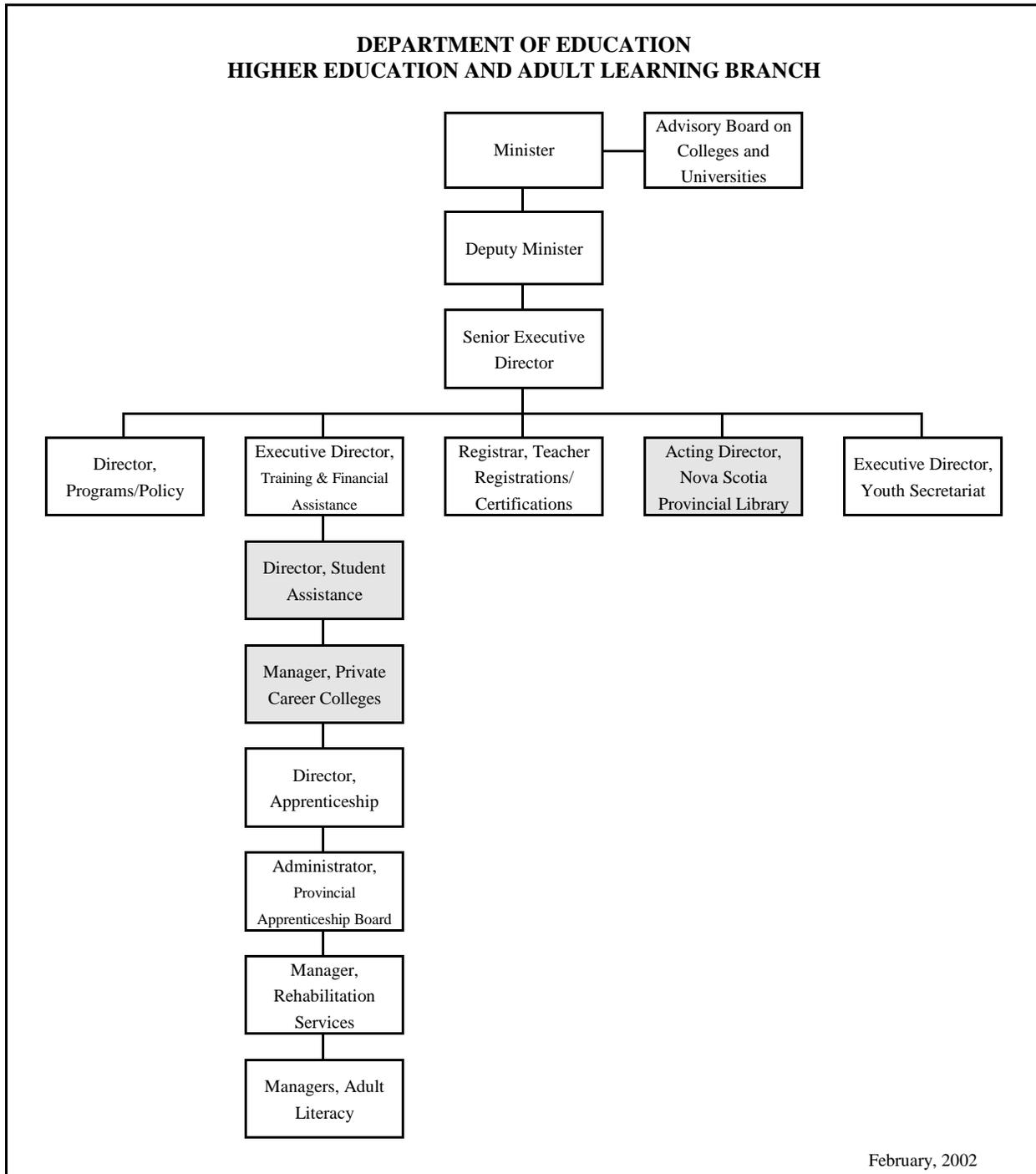
***Recommendation 3.8***

*We recommend that the Private Career Colleges Division increase the number of annual inspections to comply with its inspection policy, and improve its procedures for documenting reviews of College financial statements.*

**CONCLUDING REMARKS**

**3.73** Since our last audit of the Student Assistance Program, two significant changes have taken place. The first change is that the Province now guarantees student loans and assumes the risk of default. The second change is that applicants are no longer required to submit documentation of income on a routine basis. Both of these changes significantly increase the Province’s risk related to this program. The absence of a long-term plan for the Program also increases the risk. To effectively control and manage the program in the future, especially with the uncertain involvement of the Royal Bank of Canada, the Department needs to improve management of this Program. Required improvements include better planning, analysis of risks, and improved information systems to provide timely, useful information.

**3.74** Two of the most important elements in any accountability relationship are planning, and reporting on performance. Operational planning in all three Divisions audited needs to be improved, as does reporting to the House of Assembly and public on the performance of the Student Assistance and Private Career Colleges Divisions.

*Exhibit 3.1*

*Note: Shaded boxes are those Divisions focused on during the audit*

**Exhibit 3.2**

<b>HIGHER EDUCATION AND ADULT LEARNING BRANCH</b>		
<b>EXPENDITURES</b>		
<b>(In \$000's)</b>		
	<b>2001-02</b>	<b>2000-01</b>
Administration	\$ 156.0	\$ ---
Nova Scotia Advisory Board for Colleges and Universities	215.6	421.1
Student Assistance	13,347.1	20,391.6
Rehabilitation Programs and Services	2,009.5	1,062.3
Private Career Colleges	391.1	544.7
Career and Transition Services	---	900.6
Teacher Certification	167.2	261.9
Nova Scotia Provincial Library	<u>1,461.2</u>	<u>1,534.4</u>
<b>Branch Total</b>	<b><u>\$17,747.7</u></b>	<b><u>\$25,116.6</u></b>

Source: SAP

Note: The expenditures above are as reported in SAP for the Branch. The Branch is also responsible for the grants to Regional Library Boards (2001-02 - \$10.0 million, 2000-01 - \$9.9 million), Community Colleges (2001-02 - \$64.3 million, 2000-01 - \$58.8 million) and Universities (2001-02 - \$201.7 million, 2000-01 - \$203.5 million).

**Exhibit 3.3**

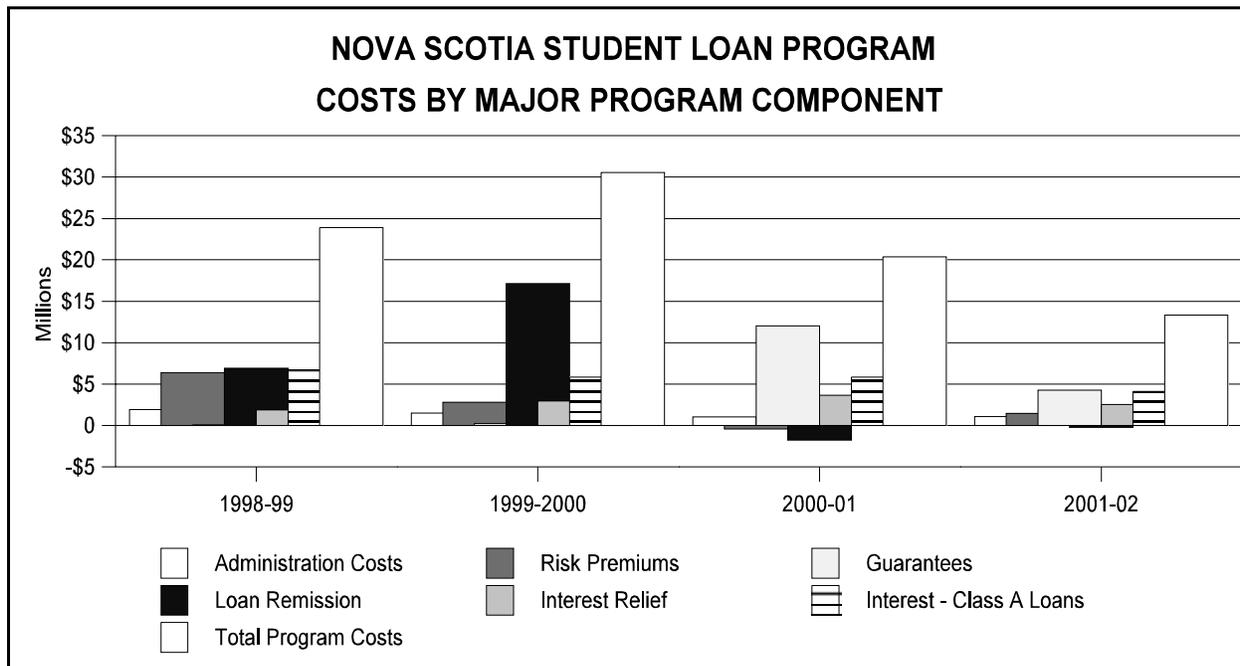
<b>GRANTS TO REGIONAL LIBRARY BOARDS</b>			
	<b>2001-02</b>	<b>2000-01</b>	<b>1999-2000</b>
Annapolis Valley	\$1,211,000	\$1,198,809	\$1,164,184
Cape Breton	1,525,501	1,510,132	1,466,514
Colchester - East Hants	844,999	836,464	812,306
Cumberland	408,200	404,085	392,414
Eastern Counties	589,099	583,334	567,059
Halifax	2,974,701	2,944,884	2,859,823
Pictou-Antigonish	824,400	816,108	792,536
South Shore	724,200	716,964	696,257
Western Counties	<u>860,900</u>	<u>852,223</u>	<u>827,607</u>
<b>Regional Library Boards</b>	<b><u>\$9,963,000</u></b>	<b><u>\$9,863,003</u></b>	<b><u>\$9,578,700</u></b>

Source: SAP

*Exhibit 3.4*

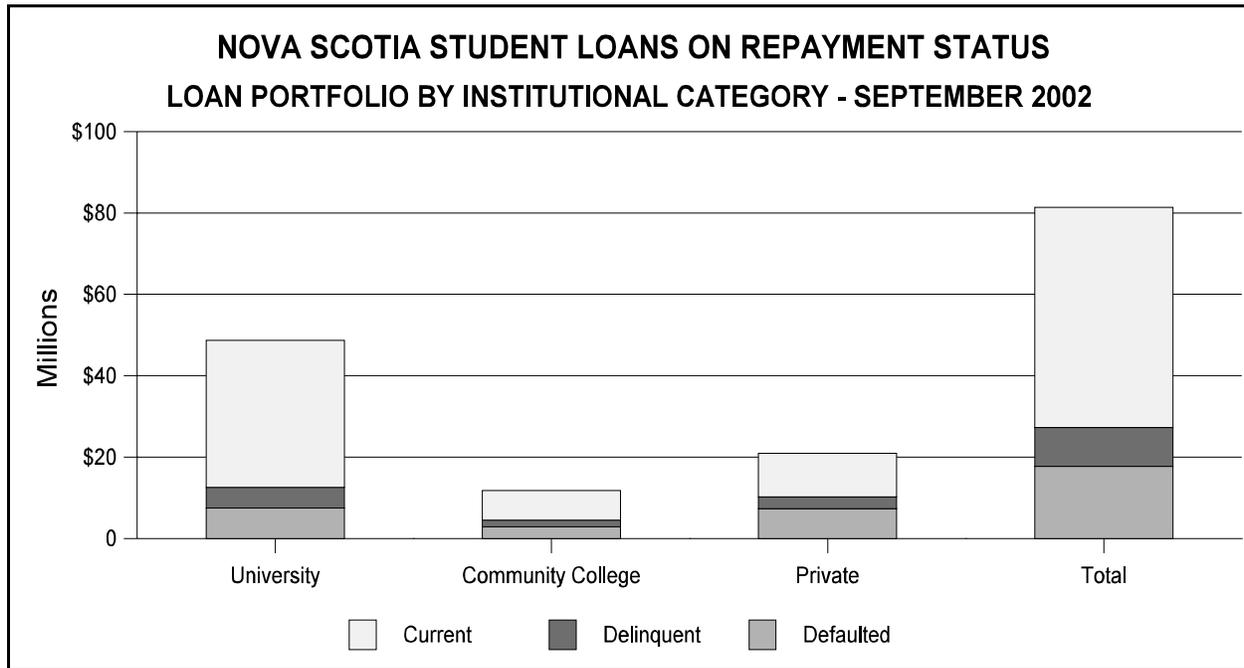
<b>STUDENT ASSISTANCE DIVISION - SUMMARY OF KEY STATISTICS ACADEMIC YEAR ENDED JULY 2002</b>			
	<b>NSSL</b>		<b>CSL</b>
Maximum Student Loan (34 week program)	\$	5,100	\$ 5,610
Average Student Loan	\$	3,783	\$ 5,165
Number of Loans Approved		10,233	18,340
Value of Loans Approved	\$	38,712,783	\$ 94,719,430
Portfolio Balance - Interest Free Status July 31, 2002	\$	82,811,824	N/A

*Note: Unaudited amounts provided by Student Assistance Division.*

*Exhibit 3.5*

*Source: SAP*

*Exhibit 3.6*



Source: Unaudited amounts provided by Student Assistance Division.

Note: Defaulted loans are those loans written off by the Royal Bank of Canada in the last 18 months.

Delinquent loans are loans 60 days or more in arrears (and not written off).

Loans on interest relief of \$20.6 million are excluded as they are not on repayment status

*Exhibit 3.7*

**STUDENT ASSISTANCE DIVISION  
FOLLOW-UP OF ISSUES IDENTIFIED IN 1997 REPORT OF AUDITOR GENERAL**

Program Component	Issue Reported in 1997 Annual Report	Current Status
<b>Interest</b> charged by bank	<b>10.24</b> - Tolerances accepted as “normal” in Department’s edit checks on interest billings received from banks are too broad (twice the estimated amount).	Currently the same, but soon to be reduced to 25% variance.
<b>Interest Relief Program</b> which provides an additional 30-month interest-free period	<b>10.33</b> - Student Assistance Office could not tell us the actual value of the loan portfolio on repayment status at March 31, 1997 because this information is not reported by the banks. It is difficult to estimate the exposure of the Province to interest relief claims.	Student Assistance now receives this information from the bank.
<b>Loan Remission Program</b> whereby a portion of a student’s loan will be repaid by the Province, upon successful completion of the year’s studies, to the extent that the loan for the year exceeds a predefined maximum debt level	<b>10.31</b> - No disclosure in the financial statements of the Province of the exposure to additional expense for loan remission claims. Loan remissions are recorded in the year claims are approved.	Program ended March 31, 2000.
A <b>risk premium of 5%</b> of the amount of loans awarded, payable to the bank by the Province, to compensate the bank for assuming the risk of default by the borrower	<b>10.29</b> - The Department is recording the risk premium liability as it is billed by the bank when the loan goes to repayment status. We recommended that the liability be recognized when the loans are issued.	The Province still pays risk premiums (now 10%) to the bank for those loans issued prior to August 1, 2000 and coming into repayment status subsequent to that date. The Province recognizes the risk premium liability for all loans negotiated prior to August 1, 2000. As of August 1, 2000, the Province fully guarantees student loans. The Department now estimates the liability for defaulted student loans based on loans issued after July 31, 2000.

### **DEPARTMENT OF EDUCATION'S RESPONSE**

*The Department acknowledges the overall findings of the recent audit of Student Assistance, Nova Scotia Provincial Library and Private Career Colleges Divisions of the Higher Education Branch (formerly Higher Education and Adult Learning Branch).*

*The Report identifies a number of areas for improvement including the implementation of a Branch and individual division operational plans, formal reporting of measures and outcomes, the development of a model to determine the Province's exposure for defaulted Nova Scotia Student Loans (NSSL), the development of a formal audit process in Student Assistance and increased inspection of colleges by the Private Career College Division. The following observations are made and where appropriate actions will be undertaken:*

**3.1** *Development of a model to determine exposure for defaulted student loans - Prior to August 1, 2000, the Province paid a risk premium to lenders at the point that loans were consolidated. Because of this limited risk exposure, the Province did not require detailed information on the portfolio in repayment. Because the Province is now responsible for the full cost of loan defaults, the Department has recently contracted a consultant to extract and analyse NSSL data from Royal Bank's database. Once completed, this data will be available to input into a risk model. In addition, approval has been given to re-engineer the Student Assistance computer system which will greatly enhance the Department's ability to extract and analyse data. The Department's Corporate Services and Student Assistance staff will work toward developing a model during the second half of 2003 following the completion of the consultant reports.*

**3.2** *Increased audit and verification of information on student loan applications - Because of the changes in business processes that have been taking place in Student Assistance, the Division is also restructuring. An assistant director for financial management is being hired. This position will have responsibility for auditing and will develop a formal audit plan during the first quarter of 2003. Preliminary discussions have already taken place with Canada Customs and Revenue Agency with the intention to have an agreement to allow the Province access to income tax information in place for the 2003-04 processing year.*

**3.3** *Branch operational planning and reporting - The HEAL Branch has undergone significant restructuring over the last two years and has recently been separated into two new branches, Higher Education Branch and Skills and Learning Branch. The new Higher Education Branch will undertake a strategic planning process in the first quarter of 2003.*

**3.4** *Private Career Colleges Division*

**A.** *Inspection of private career colleges - The Private Career College Division was unable to meet its target of annual inspections in 2001-02 because of staff shortages. The Division is now fully staffed and, by Dec. 13, 2002, every registered college will have been inspected for the 2002-03 registration year.*

**B.** *The Department does not share the Auditor's observation on the current system of industry reviews. The Department believes that the process set out in the Operations Guide is satisfactory.*

**C.** *The Department acknowledges the recommendation with respect to financial reporting by private career colleges and looks forward to receiving guidance on documenting reviews of financial statements from private career colleges from the Auditor General.*