

# 7 STUDENT ASSISTANCE

## BACKGROUND

- 7.1** The purpose of the Student Assistance Program is to facilitate greater access to post-secondary education for Nova Scotians by providing financial assistance to eligible students. The authority for the program is the Student Aid Act. The Program is the responsibility of the Higher Education Branch of the Department of Education. The Student Assistance Division within the Branch administers various programs including the Nova Scotia Student Loan (NSSL) Program which was established in 1993. Since 1997, the Royal Bank of Canada (RBC) has been the sole issuer of Nova Scotia student loans based on eligibility certificates issued by Student Assistance. The Province has provided a guarantee for all loans issued since August 1, 2000.
- 7.2** The Senior Executive Director of the Higher Education Branch has overall responsibility for operations of the Student Assistance Division (the Division). The Division is managed by the Director of Student Assistance and two Assistant Directors. The Assistant Director - Program is responsible for application assessment, student counseling, the call centre and data processing functions. The Assistant Director - Finance is responsible for program compliance and financial service functions. The Division has a staff complement of 36.6 full-time equivalents. For the detailed organization chart, see Exhibit 7.1.
- 7.3** The Division administers several provincial and federal student assistance programs. These include Nova Scotia Student Loans, Canada Student Loans, Canada Millennium Scholarships and the disbursement of Canada Study Grants for students. The Division also is responsible for the Province's Interest Relief and Debt Reduction programs.
- 7.4** Significant legislation and agreements include the Student Aid Act, Millennium Scholarship Foundation Agreement, and the Memorandum of Understanding between the Royal Bank of Canada and Province of Nova Scotia for financing and managing the Nova Scotia Student Loan portfolio. Under the terms of the Memorandum, the Division processes student assistance applications and determines student entitlement, while the actual financing of the loan is the responsibility of RBC. The Province pays interest to RBC on loans while the student is considered in study (until six months after actual completion of studies); these payments amounted to \$3.6 million for 2004-05.
- 7.5** Effective August 1, 2000 the Province bears the risk for student loans negotiated by RBC. Prior to this date, the Province paid a risk premium of 10% of the loan balance to RBC at the time of consolidation of loan balances and RBC bore the related risk. As at March 31, 2005 the Province had guaranteed approximately \$141 million in Provincial student loans to RBC.

- 7.6** In 2005-06, the NSSL Program is expected to provide assistance to eligible students of approximately \$45 million through RBC. These loans are repayable by students to the Royal Bank upon completion of their studies. In cases where students default for 180 days, payment to RBC is fully guaranteed by the Province. During the 2004-05 fiscal year, the Province made payments with respect to defaulted student loans to RBC in the amount of \$5.1 million (see Exhibit 7.4). This amount is expected to grow to \$8 million in just two years.
- 7.7** On an annual basis, the Province adjusts the provision for anticipated bad debts established on its financial statements to reflect the current year experience and forecasts. As at March 31, 2005, the total amount of guaranteed loans outstanding at RBC was approximately \$141 million. The provision for bad debts was \$21.1 million or approximately 22% of the net present value of the repayable balance. In 2004-05, the provision was decreased by \$0.3 million to reflect the assessed risk level.
- 7.8** After loans in default are paid by the Province to RBC, the Province assesses collectibility. Loans deemed to be collectible are established as accounts receivable by the Province. As at March 31, 2005, the related accounts receivable balance was \$1.95 million.
- 7.9** In recent years, the Department of Education has taken a number of measures to improve student assistance programs such as the development of a debt reduction program, enhancements to the present interest relief program, and progress towards the development of a joint provincial/federal designation policy framework. For the 2005-06 academic year, specific program enhancements include decreased parental contribution requirements, increased assistance limits and new grants for under-represented groups.
- 7.10** Actual net expenditures in 2004-05 for this division were \$14.6 million and budgeted expenditures for fiscal 2005-06 are expected to be approximately \$20.9 million (see Exhibit 7.5).
- 7.11** Our last audit of the Student Assistance Division was performed in 2002 and reported in the 2002 Report of the Auditor General (chapter 3).

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## RESULTS IN BRIEF

- 7.12** The following are the principal observations from this audit.
- We performed our last audit of the Student Assistance Division in 2002. Since that time, the Department has begun to deal with some of our recommendations. However, progress has been slow and we repeat certain of the recommendations in this chapter. We understand that some of the delay is attributable to turnover in the Division's senior management positions and we acknowledge that the Division has included many of these areas in its priorities. However, action needs to be taken in the short term to address the need for improved controls in certain areas.

- We concluded that there is an appropriate level of accountability with respect to specific Student Assistance initiatives and priorities included in the Department of Education's Business Plan. However, because the Business Plan relates to the entire Department, it does not include detailed planning for the Student Assistance Division. We recommend more detailed short and long-term operational planning for the Division and formal monitoring of achievement of performance targets. For example, we would expect the Division to be setting and monitoring performance targets related to the efficiency of the Division's operations and turnaround time for application processing.
- The Student Assistance Division has not performed a formal risk assessment with respect to its activities and responsibilities. An assessment would attempt to identify significant, potential risks and ensure that adequate controls exist to mitigate them. For example, fraud and error would likely be identified as risks and strategies for prevention, quality control and verification would be planned to mitigate the risks.
- We tested a sample of student assistance files and used data extraction software to perform analysis of specific aspects of the Student Assistance Division's electronic databases for 2003-04. In the vast majority of cases tested, assistance awards complied with policies. However, there were a few cases identified in our sample where errors during the assessment process led to errors in the amount of the assistance awarded to students. We extended our sample size and found no further errors. We have recommended internal quality control improvements to assist in preventing such errors.
- Section 23(1) of the Provincial Finance Act requires Executive Council approval for write off of debts owing to the Province. We believe the Act is unclear as to whether it applies to payments made by the Province to the Bank under the student loan guarantee. If the Section does apply, the accounting policy followed effectively writes off student loans deemed uncollectible without Executive Council approval and approval should have been sought to write off \$3,582,000 in 2004-05. We believe the Department should seek a formal legal opinion on whether Executive Council approval is required.

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## AUDIT SCOPE

- 7.13** The major objectives of our audit of Student Assistance were to review and assess:
- the adequacy of operational and financial planning, and performance reporting;
  - compliance with policies and legislation;
  - the adequacy of controls over the application and assessment processes, and payments to the bank;

- progress towards a national framework for designation of educational institutions;
- the accounting treatment for costs associated with the student assistance program and related compliance with generally accepted accounting principles; and
- follow up on implementation of recommendations from our 2002 audit.

**7.14** Our audit criteria were obtained from recognized sources including the Auditor General of Canada's *A Framework for Identifying Risk in Grant and Contribution Programs*, the Canadian Institute of Chartered Accountants' *Public Sector Accounting Handbook*, Treasury Board of Canada Secretariat's *Policy on Transfer Payments* and the Department of Education's Student Assistance policies and procedures.

**7.15** Detailed on-site fieldwork was conducted during July and August of 2005. Our audit procedures consisted of analysis of databases, testing of detailed transactions and student assistance applications, examination of policies and procedures, review of reports and other documents deemed to be relevant, and interviews with management and staff. Our audit did not include collection activity with respect to defaulted loans where the guarantee has been honoured. The collection activity was outside our audit scope because Service Nova Scotia and Municipal Relations, rather than the Department of Education, is responsible and this audit focussed only on the Department of Education.

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## PRINCIPAL FINDINGS

### Business Planning and Performance Reporting

**7.16** [Department of Education Business Plan](#) - Departments and agencies of the government of Nova Scotia are required to prepare annual business plans describing their priorities for the next fiscal year. The following priority, related to the Student Assistance program, is included in the Department of Education's 2005-06 Business Plan: "Improvements to the Student Assistance program will be implemented, including increased loan limits, changes to Parental Contribution, debt management measures and targeted grants."

**7.17** The Department's 2005-06 Business Plan also includes the following three performance measures related to Student Assistance with related targets:

- Nova Scotians enrolled in universities and community colleges
- Average Nova Scotia student loan amount
- Number of student loans issued

**7.18** Student Assistance management prepare formal status reports for Department senior management on a monthly basis including progress in implementing

Division priorities and expected completion dates. Progress is tracked informally through weekly management meetings. The Department also prepares quarterly reports to Treasury and Policy Board on the status of Business Plan priorities. Annual performance plans for Division management include responsibility for implementation of Business Plan priorities.

- 7.19** We concluded that there is an appropriate level of accountability with respect to specific Business Plan initiatives and priorities. However, because the Business Plan relates to the entire Department, it does not include detailed plans for the Student Assistance Division.
- 7.20** **Operational planning** - A long-term operational plan has not been prepared for the Student Assistance Division. Branch senior management have identified several priorities for the next three years including the following:
- “Increased focus on risk management, including the Designation framework, SIN validation, and Canada Revenue Agency data sharing.
  - Complete and make operational the new student assistance IT platform.
  - Develop a method of on line data exchange with Universities and Colleges to confirm enrollment, academic standing and graduation.
  - Complete analysis and initiate new service provider contract.
  - Implement program changes as approved through ICCSFA.”
- 7.21** Nova Scotia participates on the Intergovernmental Consultative Committee for Student Financial Assistance (ICCSFA) which helps ensure a pan-Canadian approach to government funded student financial assistance. ICCSFA is comprised of all provinces/territories participating in the Canada Student Loan Program, and the federal government.
- 7.22** With the exception of the Department of Education’s Business Plan described above, there is no formal annual plan prepared with respect to the operations of the Division. The purpose of an operational plan would be to define specific initiatives and priorities, guide Division management and serve as a basis for performance reporting and accountability.
- 7.23** **Performance measures** - Operational plans should include performance measures and targets. Performance against these targets should be monitored, assessed and reported on a regular basis. For example, we would expect the Division to be setting and monitoring performance targets related to the efficiency of the Division’s operations and turnaround time for application processing. (See paragraph 7.48 for additional discussion of turnaround time.) The Division informally monitors certain performance measures such as work flow, but there are no formal targets and achievement is not regularly reported.
- 7.24** We believe that management’s accountability for the administration of the Student Assistance program would be enhanced by appropriate operational planning and status reporting. We recommended development of operational plans in 2002 and repeat the recommendation below. We acknowledge that key senior management

positions in the Student Assistance Division have recently been filled and that management turnover may have delayed implementation of our recommendation in this area.

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#### **Recommendation 7.1**

**We recommend that the Student Assistance Division prepare a long-term operational plan for the Student Assistance program.**

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#### **Recommendation 7.2 (repeated from 2002 audit)**

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

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### **Budgeting and Financial Management**

- 7.25** **Annual budgeting process** - Development of the annual budget for the Student Assistance Division starts in the fall. The Department's finance section requests Division management to submit a critical issues document detailing cost pressures and new initiatives requiring additional funding in the next fiscal year. The critical issues are to include the rationale as well as management's best estimate of the potential cost. Critical issues approved for funding and salary adjustments determined by the Department's finance section are added to the Division's current year budget to form the basis of the budget for the next fiscal year.
- 7.26** **Monitoring** - A monthly forecast turnaround document is prepared by Division management and used to monitor actual expenditures to date and forecast expenditures to year end. This report is reviewed by the Department's Finance section as well as the Branch Senior Executive Director. Division management provides additional variance explanations to the Senior Executive Director and the Department's finance section as requested.
- 7.27** We concluded that the Division has reasonable processes for annual budgeting and periodic monitoring of financial performance in relation to the budget. Financial management processes comply with central government requirements.

### **Student Assistance Application and Assessment Process**

- 7.28** **Background** - The primary role of the Student Assistance Division is to process student assistance applications and award loan certificates to students for presentation to the lender. In a typical application year, Division staff will process approximately 20,000 applications. Students may either apply on-line through the website or submit a paper application. All applications are processed using the

Division's production software. An electronic interface has been created between the web-based application and the production system. Information from paper applications is manually input into the production system. Approximately 90% of applications are received electronically.

- 7.29** After eligibility is determined, the amount of assistance awarded depends on a student's established need. Need is calculated by taking allowable costs under the program and subtracting the student's resources. The assistance awarded cannot be more than the maximum assistance available under program guidelines. Allowable costs include tuition fees, living costs, and dependants. Resources may include parental contributions, pre-study income and other financial assets.
- 7.30** Accuracy of assistance awards can be attributed to five basic factors:
1. whether the supporting information submitted by the student is complete and accurate;
  2. whether the assessor's judgement in analyzing the application and requesting additional information is appropriate;
  3. whether the data is entered into the production system accurately;
  4. whether the computer environment is controlled appropriately; and
  5. whether the production system processes the information correctly.
- 7.31** Our review of controls and testing of assistance applications focussed on an assessment of whether these basic factors were being appropriately controlled. Our audit findings are noted below.
- 7.32** [Computer environment controls](#) - We assessed the general computer environment controls in place and noted two areas where we believe controls should be improved.
- 7.33** Administration of computer systems is the responsibility of the Department's Information Technology (IT) Division. This includes the computer systems used by the Division to process student assistance and payments to the banks. We noted that there is no written understanding between the Student Assistance Division and the IT Division. However, Student Assistance management indicated that the Division's needs are being met. We believe that the relationship would be enhanced if there was written documentation clearly defining roles and responsibilities of both parties with respect to critical business functions and acceptable response times.
- 7.34** The Division has neither an up-to-date disaster recovery plan nor a business continuity plan. The lack of these plans could cause an undue delay in the resumption of services in the event of a disaster or other significant business interruption.

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**Recommendation 7.3**

**We recommend that the Student Assistance Division prepare business continuity and disaster recovery plans.**

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- 7.35** **Risk assessment** - The Student Assistance Division has not performed a formal risk assessment with respect to its activities and responsibilities. This is important to ensure that all potential risks are identified, analyzed and prioritized and that adequate controls exist to mitigate those risks. The lack of formal risk assessment increases the risk that proper controls may not be in place to prevent and detect loss. For example, an appropriate risk assessment would target particular areas for audit activity and verification to prevent fraud.
- 7.36** **Verification of documentation received** - The Division does not routinely require submission of supporting documentation (e.g., tax returns, child care receipts) relating to the student, parents or spouse to verify financial representations on applications. However, there are notable exceptions; students' pre-study income and academic marks are always verified. The decision to request supporting documents or verify information directly with the Canada Revenue Agency (CRA) is left to the discretion of the assessor. All first-time applicants are required to submit a signed "consent to release income tax information" from CRA and it remains in effect for all years that assistance is required. Division management indicated discussions are underway with CRA to enable future electronic verification of parental, spouse and student income.
- 7.37** The Division does not routinely audit information submitted by applicants. In our 2002 Report (chapter 3, paragraph 3.43), we noted that Nova Scotia does not verify as much of the supporting information related to student assistance applications as certain other provinces.
- 7.38** **Reliance on post-secondary institutions** - The Division relies on post-secondary institutions to confirm certain important pieces of information related to assistance eligibility. For example, institutions are required to confirm status as a full-time student before the loan certificate can be negotiated with the Bank. Institutions are also required to notify the Department if the student's status as a full-time student changes, for example, if the student withdraws. Guidelines for post-secondary institutions are set out in the *Administrative Manual for Designated Institutions*. Transcripts of grades must be received before awards are made for second and subsequent years of study.
- 7.39** **Quality control** - An effective internal quality control process could help ensure supporting information is assessed accurately by staff. Risk assessment could identify higher risk loans which would then be reviewed by internal audit staff for compliance with program guidelines. In addition, a representative sample of regular loans processed by each assessor could also be reviewed.
- 7.40** A limited quality control process currently exists. Edit checks are built into the production system and more complicated applications are assigned to more

experienced staff. These controls help to reduce the risk of errors. A compensating control which helps mitigate the risk of under awards is that students may inquire if they believe an error was made. Management also indicated that, in some cases, more than one staff person will work on the same assistance application which increases the likelihood of an error being detected.

- 7.41** A significant number of assistance applications processed by staff are relatively straight forward. There are, however, many factors which can complicate processing for certain students. Situations, for example, which involve married students, children, or financial assets can increase the complexity of the assessment process. These particular applications, due to increased complexity, would potentially have a higher risk of assessment error. An effective quality control program would target risk areas for additional review and audit.

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**Recommendation 7.4 (repeated from 2002 audit)**

**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 CRA data and/or establishing a formal, comprehensive audit regime.**

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**Recommendation 7.5**

**We recommend that the Student Assistance Division improve its internal quality control process by implementing risk assessment and internal audit.**

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- 7.42** Department of Education management indicated action to be taken on these recommendations is currently being planned. Plans include a data sharing initiative with CRA to verify information included on student assistance applications.
- 7.43** **Detailed testing of NSSL applications** - We performed detailed testing of a sample of NSSL applications for the August 1, 2003 to July 31, 2004 academic year. Our audit procedures included verification of student eligibility, accuracy of award calculations and appropriate supporting documentation.
- 7.44** In total, we tested a sample of 67 approved Nova Scotia student assistance applications totaling \$128,622. As a result of our detailed testing of 52 applications, we identified two assessment errors by staff which resulted in under awards of \$3,274. We extended our testing to another 15 items and found no further errors. Overall, the error rate was 2.55% of the total awards tested. The sample size tested was not sufficient to allow us to extrapolate the results of our testing over the entire population of student assistance applications for the year.

- 7.45** Internal quality control procedures as recommended above could help to prevent such errors.
- 7.46** We also used data extraction software to analyze specific aspects of the Student Assistance Division's electronic databases for 2003-04. For example, we reviewed electronic records to determine if there was evidence of the following:
- loans awarded to duplicate Social Insurance numbers;
  - part-time students who received student loans;
  - students who did not fulfill the requirement to be residents of Nova Scotia; and
  - lack of performance of credit checks where policy indicated that they should be done.
- 7.47** The Student Assistance Division provided reasonable explanations for files that were identified through our review as being potential examples of non-compliance. Through this analysis and follow-up, we did not identify any instances of actual non-compliance with policies.
- 7.48** **Application turnaround time** - There is informal monitoring of some performance measures; for example, managers monitor the number of applications outstanding and allocate staff accordingly. The Student Assistance website indicates an expected turnaround time for applications of four to six weeks. There does not appear to be any formal tracking of results against the stated turnaround time. Management indicated that the stated turnaround time is not a number that they actively monitor and use as a performance measure. We believe that the Division should formally establish a target with respect to turnaround time and that achievement should be monitored and reported.

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### **Recommendation 7.6**

**We recommend that the Student Assistance Division establish a formal target for application turnaround time and report achievement.**

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## **Loan Defaults**

- 7.49** Once the Royal Bank of Canada has determined that the student loan is 180 days in arrears as described in the Memorandum of Understanding, the Student Assistance Division is required to purchase the defaulted loan from the Bank. The amount paid out is charged against the reserve set out for this purpose. During 2004-05, the Department paid \$5.1 million for defaulted loans. As at March 31, 2005, the reserve had a balance of \$21.1 million.
- 7.50** These loans are then sent to Service Nova Scotia and Municipal Relations (SNSMR) for collection. At year end, the Division, based on information provided by

SNSMR, estimates the amount collectible from the loan balances in default and this amount is recorded by the Department of Education as accounts receivable. As at March 31, 2005, the receivable was \$1,950,000. We did not perform an audit of SNSMR's collection efforts.

- 7.51** Section 23(1) of the Provincial Finance Act requires Executive Council approval for debts owing to the Province to be written off. We believe the Act is unclear as to whether it applies to payments made by the Province to the Bank under the student loan guarantee. If the Section does apply, the accounting policy followed effectively writes off student loans deemed uncollectible without Executive Council approval and approval should have been sought to write off \$3,582,000 in 2004-05. Department of Education senior management informed us that they interpret the authority to write off defaulted student loans to be part of the authority to issue the guarantee to the Bank for these loans. We believe the Department should seek a formal legal opinion on whether Executive Council approval is required.

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#### **Recommendation 7.7**

**We recommend that the Department of Education seek legal advice to determine whether Section 23(1) of the Provincial Finance Act applies to guaranteed student loans in default.**

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### **Debt Reduction Program**

- 7.52** **Background** - All students who qualify for a Nova Scotia Student Loan in an academic year beginning after August 1, 2003 can apply for Debt Reduction upon graduation. Any award will be paid directly to the lender, and applied against the loan balance. For the 2004-05 fiscal year, which was the first year in which Debt Reduction was awarded, the Division made payments of \$1,050,081. This is a new program and many of the eligible students have not yet graduated, so the annual cost is expected to grow. The Province has a reserve of \$9,650,000 set aside for this purpose (see Exhibit 7.3). Management reviews the size of the reserve annually and adjusts if necessary.
- 7.53** **Detailed testing** - We selected a sample of 21 debt reduction applications for testing. We tested to ensure eligibility according to program criteria, correct calculation of the award, and adequacy of supporting documentation. We found that 20 of the 21 applications tested were processed in compliance with program criteria.
- 7.54** In one of the sample items, an error was made in calculating the award amount which resulted in a student's award being \$525 less than it should have been. This error appears to be an isolated incident because of the particular circumstances of the student and it was corrected after we identified it.
- 7.55** Management informed us that, due to the newness of the Debt Reduction Program and certain communication issues, the application deadline is currently not being

enforced. Management also indicated that extensive efforts have been made to notify eligible students. A formal process for tracking debt reduction applications and payments has not yet been implemented but the Division is able to run ad hoc reports to monitor the area. On November 3, 2005, the Province announced that effective August 1, 2006 the employment and repayment bonuses available to students through the Debt Reduction Program will be doubled.

## Payments to Lending Institution

- 7.56** Some of the more significant provisions of the current Memorandum of Understanding (MOU) between the Royal Bank of Canada and the Province are summarized in Exhibit 7.7. The current agreement between the Bank and the Province expires on July 31, 2006, with an option to extend the agreement for two more years. The Department has established an internal committee with a mandate to recommend program options for future student assistance delivery, funding and collection.
- 7.57** Under the terms of the MOU, the Department is required to make monthly payments to the Bank for several aspects of the Nova Scotia Student Loan Program. The most significant of these payments relate to in-study interest, post-study interest relief and defaulted student loans (see Exhibit 7.4). The Bank sends electronic files to the Division which provide detailed support for the payment requested. The Division then puts the files through a series of electronic edit checks to assess the accuracy of the amounts being billed. An error report is prepared which flags transactions within the file that do not pass the established edit checks. The Division reviews the error report and informs the Bank of any required changes.
- 7.58** Although the edit checks are extensive, we noted areas where controls should be improved. For example, not all transactions flagged by the error report are investigated by Division staff because the number of transactions identified is so great. We believe there is a need to assess the edit checks currently in place to ensure that only potential errors warranting further staff investigation are highlighted in the monthly error reports. Also, once errors have been confirmed and reported to the Bank for correction, the Division does not have a regular, formal process for follow up to ensure the Bank has actually made the required adjustment.
- 7.59** In 2002, we recommended that the Department improve its electronic edit processes related to interest charges billed by the Bank primarily because the tolerances built into the edit checks were too wide. The Department acted upon the recommendation and extensive changes were made with strict thresholds for tolerances. However, the new edit checks flag so many transactions that the Department cannot investigate them all. The process is evolutionary and additional changes are now required to ensure the edit checks are correctly identifying problem transactions for investigation.
- 7.60** We also noted that the edit checks performed on the electronic file supporting post-study interest payments are not adequate and need to be improved. For

example, although the Division receives copies of approved interest relief applications processed by the Bank, the students on the electronic file and the approved applications are not compared to ensure that only eligible students are billed. We also noted that electronic controls do not appear to be in place to ensure that interest relief payments made to the Bank for any one student do not exceed the 30-month program limits.

- 7.61** The reports received from the Bank require improvement. For example, if the Bank does not know the Social Insurance Number, the data field is filled with “0”s. The Division’s electronic edit would not identify this file as a problem because the only related check is that the field be numeric.

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**Recommendation 7.8 (repeated from 2002 audit)**

**We recommend that the Student Assistance Division continue to improve its electronic edit processes related to interest charges billed by the Bank to the Province.**

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## Designation of Post-secondary Education Institutions

- 7.62** In order for students to receive assistance, institutions attended must currently be designated as described in the Division’s policies. Requirements for designated institutions are as follows:
- licenced by a provincial government or operate under provincial legislation;
  - offer programs at the post-secondary level;
  - have a refund policy for students who withdraw early; and
  - complete a cheque signing authorization form.
- 7.63** We tested a small sample of files for newly-designated institutions to determine compliance with the policy. We found a student had obtained a student loan to study at a massage therapy institute in the southern United States, and we could not determine whether the requirements for designation had been met. Information to support fulfillment of the above requirements was not on file at the Department. Designation of institutions outside the country is important due to increased risk because Division staff would not be familiar with the institutions or programs offered. Collection might also be riskier if the student decided to stay in another country after completion of studies. For another newly-designated institution in our sample, located in the Province, not all documentation to support designation was on file.
- 7.64** The Division indicated that it has not had a formal, regular process to verify that designated institutions are complying with policy. However, during 2004-05, the Division conducted a compliance review jointly with the Canada Student Loans

Program. The review involved selecting a representative sample of student files from public and private institutions, including E-learning and traditional classroom delivery, designated for the purposes of student financial assistance in Nova Scotia. Selected student files were then reviewed on-site for accuracy and completeness, according to Provincial policies and procedures. The following were the major findings from the review:

*“Overall, the review findings indicated that the student files at the participating post-secondary institutions were administratively well organized and generally in compliance with the pertinent regulations and guidelines. However, some discrepancies were found. It is recommended that follow-up meetings be held with each educational institution that participated in the review to assist the educational institutions in strengthening their administrative practices and better prepare the institutions to meet the requirements of the new Designation Policy.*

*Additional follow-up will be required by NSSLP to address outstanding issues identified at certain educational institutions. This will involve:*

1. *Clarifying the process for determining at what point student is no longer considered in full time attendance and when they should be withdrawn from study.*
2. *Reviewing that the calculations of tuition refunds are done in accordance with Nova Scotia’s tuition refund policy.*

*The compliance review identified a series of further recommendations as next steps for NSSLP, including:*

1. *Develop an internal compliance review capacity to address institutional compliance issues on an on-going basis. (Compliance Review Officers)*
2. *Strengthen the legal authority to conduct future compliance reviews.*
3. *Develop a policy to guide for [sic] E-learning institutions to assist in determining when a student is no longer considered in full time attendance and therefore should be withdrawn from the program of study.*
4. *Review the methodology used by E-learning institutions in their application of Nova Scotia’s tuition refund policy. (Particularly with respect to hardware)*
5. *Develop policy/procedures to mitigate the impact and incidence of early withdrawal of students from E-learning institutions.” (Compliance Review of Selected Post-Secondary Educational Institutions in Nova Scotia, March 2005, page 3)*

**7.65** The Division has indicated that it plans to do more compliance reviews in the current year, and that compliance officers will be hired. We support this initiative.

**7.66** In 2002, we reported that the Department had drafted a designation policy to help ensure the Program is financially sustainable over time. One of the measures proposed for gauging the likelihood of loan repayment, which is essential for Program sustainability, was the repayment rate of an institution’s students (see Exhibit 7.6). We supported the need for a designation policy to ensure that the Program is administered with due regard for economy and efficiency. Since that time, there has been some progress on the issue both in the Province and nationally.

**7.67** **National Designation Framework** - In 2001, the provincial/territorial and federal governments agreed to the development of a Designation Policy Framework (Framework) with common elements to be applied in all jurisdictions for the designation of institutions. Four principles were agreed upon to be reflected in the Framework:

- Taxpayer protection
- Accountability and informed choice
- Consumer protection
- Complementarity to other postsecondary education policies

**7.68** The objectives of the Framework are as follows:

*“The Designation Policy Framework is a pan-Canadian approach intended to guide jurisdictions in the development of their designation policies...The Framework reiterates the fundamental purpose of government student loan programs - that of increasing access to opportunities for postsecondary education. The Framework document itself signals to institutions that student success is a key element in successfully managing financial risk. They play the central role in retaining students, ensuring students succeed, and ensuring students improve their overall employability. These are key factors contributing to students’ success in repaying their student loans.” (Designation Policy Framework, November 2004, page 2)*

**7.69** Student Assistance management indicated they believe the new Designation Framework will be an important factor in managing the risk of defaulted loans. Under the new Framework, those institutions with student repayment rates which continue to be below an acceptable limit may be de-designated which means students would not be eligible for either Canada Student Loans or Nova Scotia Student Loans. The Framework would include passive and active monitoring for those institutions with average or poor performance. The Framework also calls for a process of ongoing monitoring of designated institutions to ensure they are fulfilling their responsibilities.

**7.70** Although the Division has established some general tasks and milestone dates respecting the implementation of the Framework, a detailed plan has not yet been prepared. In addition, it is important that a formal process be established to monitor institutions’ compliance with Framework requirements. Management has indicated that compliance officers will be added and their primary role will be to audit designated institutions. We note that the implementation of a designation framework is a priority for the Division (see paragraph 7.20).

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**Recommendation 7.9 (repeated from 2002 audit)**

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

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## Follow-Up from Prior Audit

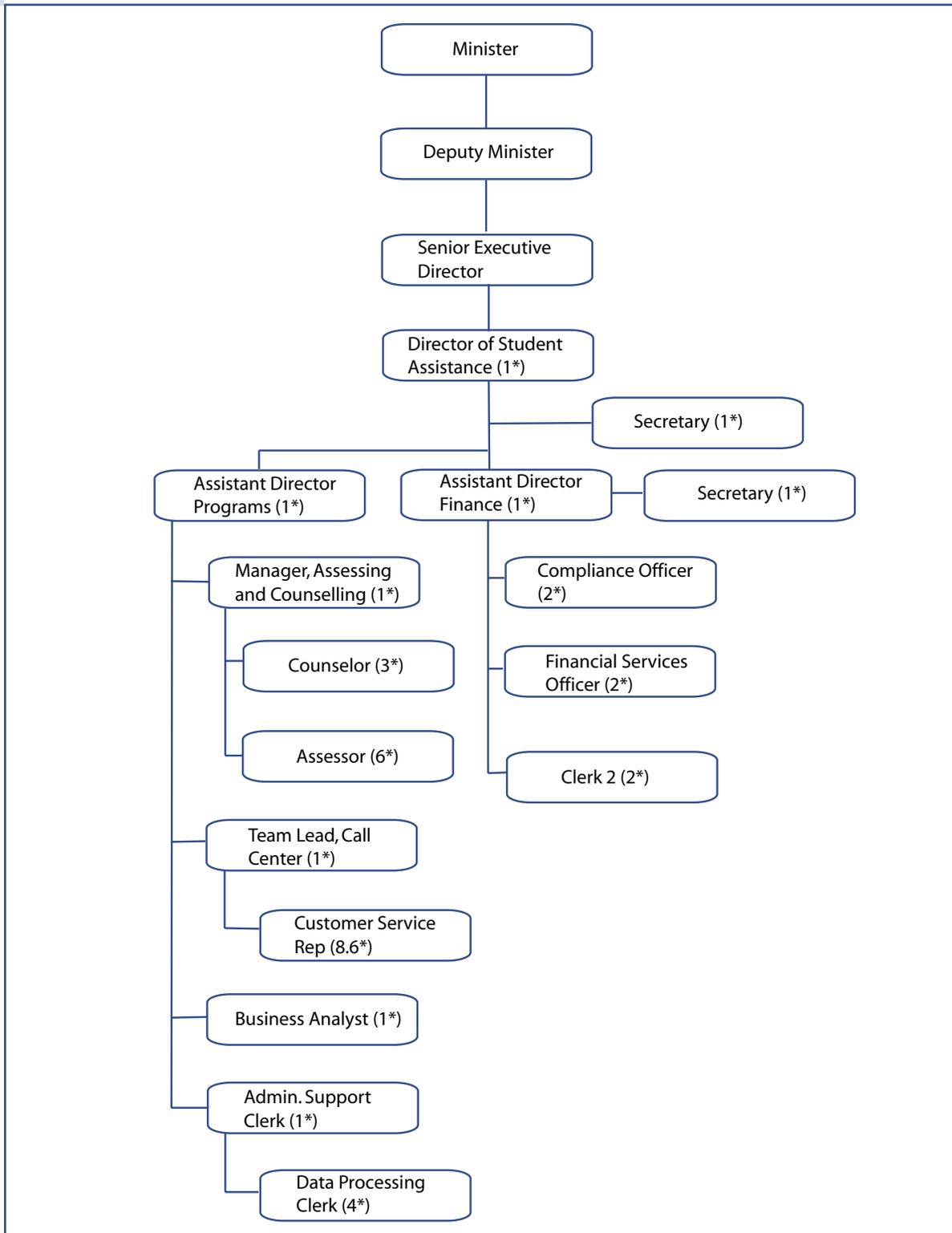
- 7.71** During this audit, we inquired about the Department's actions to address our 2002 recommendations related to the Student Assistance Program. The results have been incorporated in various parts of this chapter and are summarized in Chapter 5 which reports the result of our review of the implementation status of all recommendations made in the 2002 Report of the Auditor General.

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## CONCLUDING REMARKS

- 7.72** We performed our last audit of the Student Assistance Division in 2002. Since that time, the Department has begun to deal with some of our recommendations. However, progress has been slow. We understand that some of the delay is attributable to turnover in the Division's senior management positions.
- 7.73** There are several areas where progress is essential for sound management of the program. These include operational planning, verification of applicants' information, a quality control framework based on risk assessment, and a designation framework for post-secondary institutions. We acknowledge that these areas are included in the Division's priorities but stress that action needs to be taken to address these recommendations in the short term.
- 7.74** During this audit, we performed detailed testing of a sample of student assistance files and used specialized data extraction software to perform analysis of some of the Division's electronic databases. In the vast majority of cases tested, assistance awards complied with policies. However, we did identify assessment errors resulting in under awards of Nova Scotia student assistance in the amount of \$3,274 or 2.55% of the total awards tested. These cases point to the need for strengthening of internal controls over the process of awarding student assistance.
-

Student Assistance Division - Organization Chart



\* Total Student Assistance Division full-time equivalent positions = 36.6  
 Source: NS Department of Education

**Student Assistance Division - Summary of Key Statistics  
Academic Year ended July 2004**

Exhibit 7.2

	NSSL	CSL
Maximum Student Loan (34 week program)	\$ 5,100	\$ 5,610
Average Student Loan	\$ 4,195	\$ 5,331
Number of Loans Approved	10,688	15,707
Value of loans approved	\$ 44,835,000	\$ 83,742,000

Source: NS Department of Education - Student Assistance Division

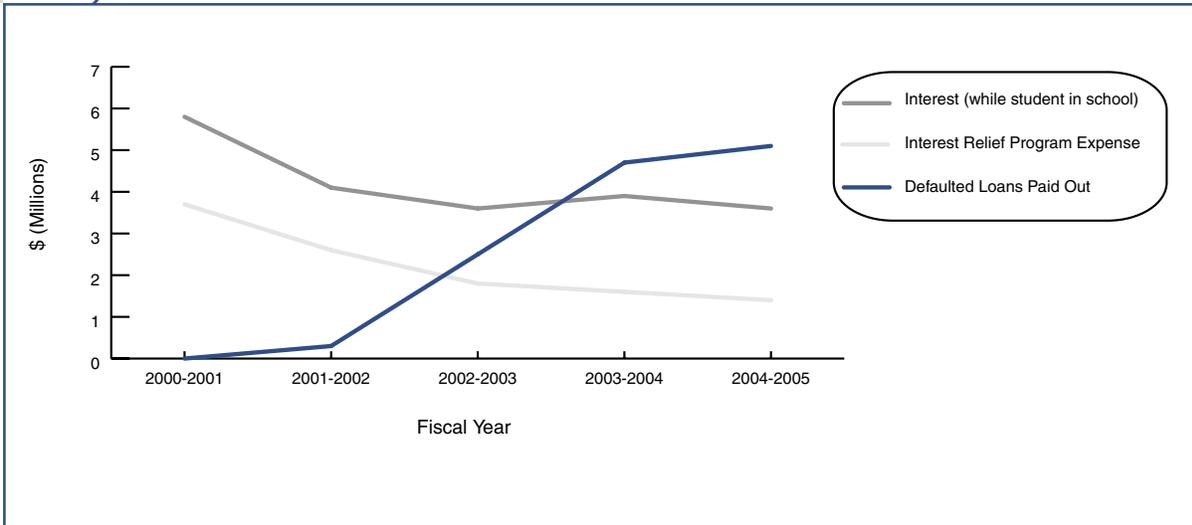
**Student Assistance Division - Summary of Key Statistics - Student Loan Portfolio  
Fiscal Year ended March 31, 2005**

Exhibit 7.3

	In-Study Loans (Interest Free status)	In-repayment	Total
Guaranteed Loans	\$ 84,369,000	\$ 56,651,000	\$ 141,020,000
Risk Loans	\$ 9,081,000	\$ 60,532,000	\$ 69,613,000
Total	\$ 93,450,000	\$ 117,183,000	\$ 210,633,000
Value of loans on interest relief	n/a	\$ 20,975,000	\$ 20,795,000
Provision for Guaranteed Student Loan Default	n/a	n/a	\$ 21,100,000
Provision for Debt Reduction	\$ 9,650,000	n/a	\$ 9,650,000

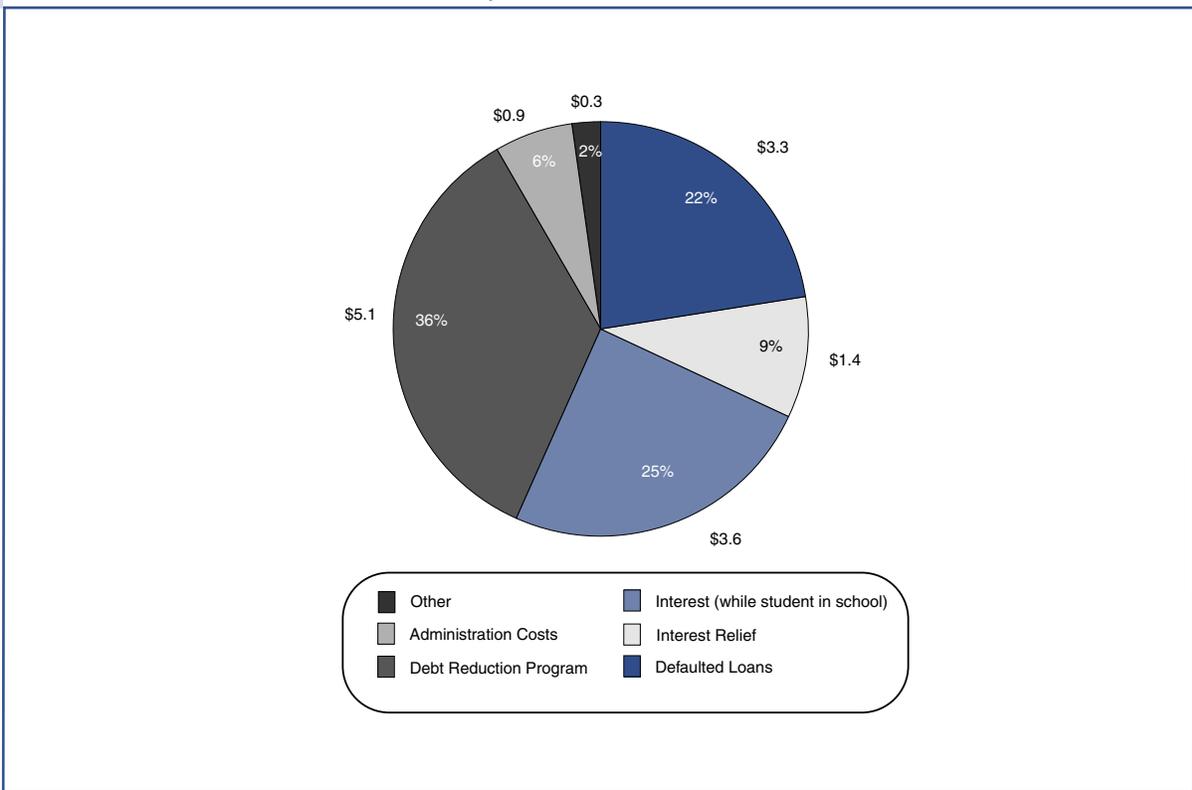
Source: NS Department of Education - Student Assistance Division

### Nova Scotia Student Loan Program Major Cost Drivers



Source: NS Department of Education - Student Assistance Division

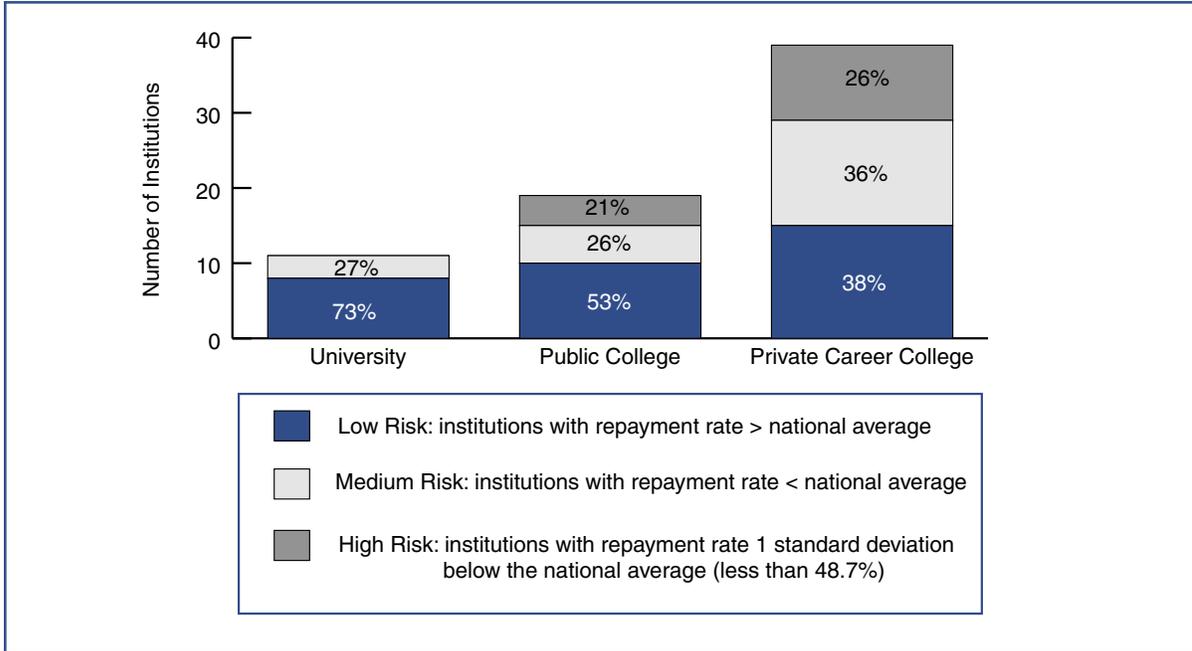
### Costs by Major Program Component (\$ Millions) Fiscal Year ended March 31, 2005



Source: NS Department of Education - Student Assistance Division

## Repayment Performance Indicator (Repayment Cohort 2002-2003 as at July 31, 2004)

Exhibit 7.6



### Explanation:

The 2002-2003 cohort represents the loan year in which students consolidated their study loans. The cohort is tracked for the purpose of determining the Risk Zone Indicators. The chart uses repayment data for the 2002-2003 cohort as at July 31, 2004.

Under the Designation Policy, Educational Institutions will be assigned one of three risk zones based on their students' loan repayment performance as calculated by the repayment rate indicator. Risk Zone for each institution is calculated as  $\{(principlal\ amount\ paid\ off + principal\ amount\ in\ good\ standing) / principal\ amount\ consolidated\}$ .

National average repayment data for 2002-2003 loan year used to establish targets; repayment rate at 70.2% and standard deviation of 21.5%.

Source: NS Department of Education - Student Assistance Division - Report on the Designation of Educational Institutions, April 2005

## Memorandum of Understanding with the Royal Bank of Canada, July 31, 2003 - Major Terms and Conditions Currently in Effect

### Term

- Initial term - three years, August 1, 2003 to July 31, 2006
- Renewable - two years, August 1, 2006 to July 31, 2008

### Provincial Responsibilities

- Determine student eligibility
- Guarantee loans
- Purchase all loans in default of payment for 180 days
- Pay interest on “in-study” loans at prime plus  $\frac{1}{4}$  of one percent
- Pay interest relief “post-study” loans at customer rate for up to 30 months
- Pay handling fee to bank

### Royal Bank of Canada responsibilities

- Advance loan to eligible students within 48 hours of receipt of executed loan documentation.
- Annually provide delinquency and loan loss history broken down by educational institution
- Each loan and borrower will be treated in substantially the same manner as any consumer customer

### Borrower responsibilities

- Begin repaying loan principal and interest six months after graduating
- Interest rate options:
  - Floating rate at prime plus 2.5%; or
  - Fixed rate @ prime plus 5%.
- Amortization period
  - Loan less than \$3,000 - maximum 36 months;
  - Loan \$3,000 to 6,000 - maximum 72 months; and
  - Loan greater than \$6,000 - maximum 96 months.
- Minimum repayment amount \$25.

Source: NS Department of Education - Agreement Regarding Student Loans, July 31, 2003

## DEPARTMENT OF EDUCATION'S RESPONSE

The Department of Education acknowledges the overall findings of the recent audit of the Nova Scotia Student Assistance Program. The Department is confident that the program is delivered consistent with all acts, regulations, policies and procedures governing the program and provides students with improved access to post-secondary education. The Department does however acknowledge opportunities presented through the audit.

With respect to the specific opportunities for improvement presented in the report, the Department would look to implement many of the recommendations made for the Student Assistance Division. The importance of performing operational planning is acknowledged, as well as the need for reporting on specific key performance indicators. The Student Assistance Division feels it would be valuable to undertake an assessment of risks to the program and would look to improve the controls necessary to mitigate those risks consistent with the availability of resources.