

3.10—Ontario Student Assistance Program

BACKGROUND

The Ontario Student Assistance Program (OSAP) is a federally and provincially funded program that provides needs-based financial assistance to full-time students to enable them to attend an approved postsecondary school. The objective of OSAP is to help students from lower-income families meet the costs of postsecondary education so that all qualified students can have access to postsecondary education. OSAP supplements the financial resources that students or, if applicable, their families are expected to contribute.

Under the *Ministry of Training, Colleges and Universities Act* and related regulations, provincial financial assistance to students is provided primarily by loans under the Ontario Student Loans (OSL) program. The Ministry also administers the Canada Student Loan (CSL) program and the Canada Millennium Bursary (CMB) on behalf of the federal government.

The amount of loan funding students may receive is based on their financial need as calculated by the Ministry, but assistance cannot exceed \$275 for each week of study in the case of single dependent or independent students and \$500 per week for married or sole-support students.

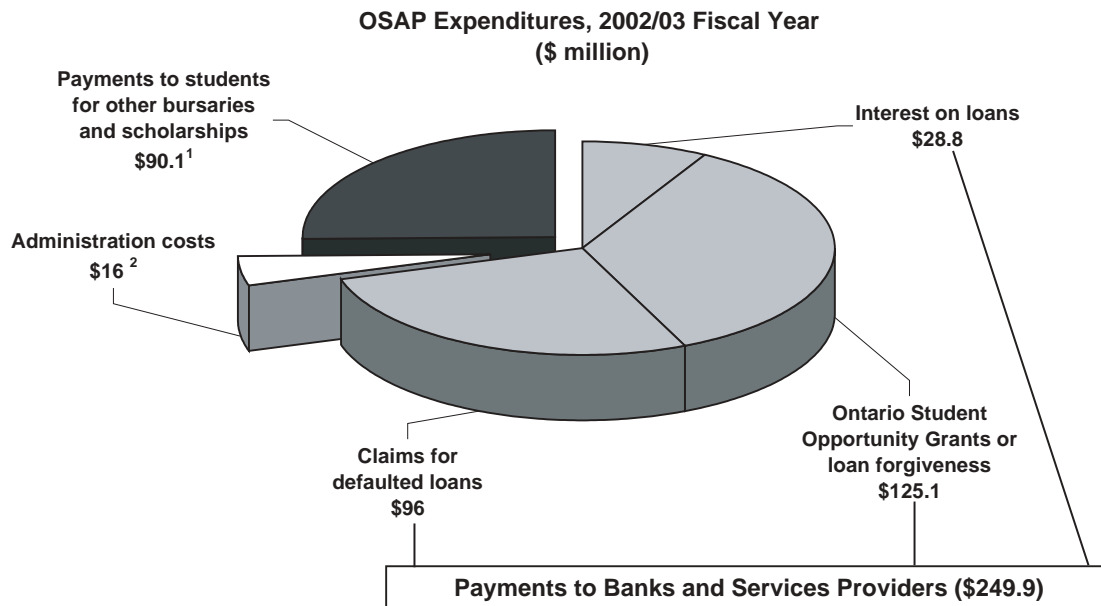
The assistance takes the form of loan guarantees, loan forgiveness grants, interest subsidies while students are attending school, interest relief during the repayment stage, and various need- and merit-based bursaries and scholarships (such as Aiming for the Top and Ontario Graduate Scholarships).

Until July 31, 2001, financial institutions provided Ontario Student Loans directly to students under terms prescribed by provincial legislation. Effective August 1, 2001, two service providers selected by the federal government—one for publicly funded colleges and universities and one for private postsecondary schools—began administering all the loans. These providers issue loans directly to Ontario students using funds provided by the Government of Canada and by the province through the Ontario Student Loan Trust. Although students are expected to repay their loans after leaving school, the Ministry pays

the interest on their student loan balances while the students attend school. The Ministry also guarantees repayment of the OSL principal should students default on their loans.

The Ontario Student Opportunity Grant (OSOG) was introduced in 1998/99 to replace the Loan Forgiveness Program. An OSOG limits the amount of debt that a student will be required to repay to \$7,000 for two terms of study or \$10,500 for three terms. OSOGs are paid directly to the Ontario Student Loan Trust after the completion of each academic year, reducing the student loan payable at that time.

For the 2002/03 fiscal year, provincial OSAP expenditures totalled \$356 million, which was allocated as outlined in the following chart.



¹ \$30.9 million of this \$90.1 million is recovered from the federal government.

² Administration costs include \$10.2 million in purchased services, much of which relate to computer system upgrades and payments to the federal government for loan administration by the service providers.

Source of data: Ministry of Training, Colleges and Universities

In addition to OSAP, other sources of financial assistance are available to eligible students in Ontario. Public postsecondary schools also offer scholarships and bursaries paid from their own funds or from Ontario Student Opportunity Trust Funds, \$300 million of which were provided by the Ministry in previous years as an endowment to the schools.

All OSAP-designated schools have a Financial Aid Office that serves the school's students.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of OSAP were to assess whether key financial and management systems and procedures are sufficient to ensure that:

- the program is delivered economically, efficiently, and in accordance with stated goals and objectives, legislated authority, and approved policies and guidelines; and

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- effectiveness in achieving stated goals and objectives is reliably measured and reported.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our audit was conducted primarily at the Ministry's Student Support Branch and included examining controls over application processing and eligibility, in-study account management, OSOGs (loan forgiveness grants), and loan collection and default management. In addition, we visited several Financial Aid Offices at postsecondary schools to interview staff and examine documentation supporting selected loan transactions and their administrative procedures. We also researched data on student financial aid programs in other jurisdictions.

The audit criteria used to conclude on our audit objectives were discussed with and agreed to by senior ministry management and related to systems, policies, and procedures that the Ministry should have in place.

We conducted our audit work during the period of December 2002 to April 2003 with an emphasis on transactions and activities conducted in 2002/03. Where appropriate, we extended our analysis of transactions to the previous two fiscal years.

The Ministry's Internal Audit Services Branch had been working with counterparts in the federal government to document, review, and strengthen controls over the new service providers under contract with the federal government, and to establish external audit arrangements for these providers that address risks to Ontario. Internal Audit had also recently completed an IT security audit of the OSAP information systems. Accordingly, we significantly reduced the scope of our work in these areas. The Internal Audit Services Branch also assisted us in performing several detailed analyses of data maintained on the OSAP information systems.

We also tested controls over two scholarship programs—the Aiming for the Top and the Ontario Graduate Scholarships—and reviewed the accountability and reporting requirements established for the Ontario Student Opportunity Trust Funds provided by the Ministry but managed by publicly funded postsecondary schools. Our observations and recommendations with respect to this work were not significant enough to warrant inclusion in this report but were communicated in a letter to the Ministry.

OVERALL AUDIT CONCLUSIONS

Since our last audit in 1997 the Ministry has taken action to address a number of our recommendations and significantly improve the overall administration of the program. For example, application processing has become much more efficient since the introduction of on-line application processing, and procedures to ensure that the Financial Aid Offices in

postsecondary schools meet service delivery and program requirements have been enhanced. While systems and procedures to ensure that the program is delivered economically, efficiently, and in compliance with requirements have improved since our last audit, there are several areas where further action is required:

- The Ministry had not adequately investigated the results of its efforts to verify incomes reported on OSAP applications against federal government income tax information in order to determine the risk of undetected abuse. For example, it had not determined the number of students and supporting individuals whose reported income could not be verified over several years.
- The Ministry has paid about \$2 million more annually in interest and risked at least \$6 million more in annual default costs than it should have because:
 - the majority of each loan advance is paid out early in the study period even though the study period can be up to a year long;
 - many postsecondary schools do not have adequate or timely processes for monitoring and recording changes in students' academic status that should have reduced their assistance entitlement; and
 - it requires prompt repayment of loan overpayments only in cases where a student has significantly under-reported income to cause the overpayment.
- The Ministry paid loan forgiveness grants to students who did not qualify for such grants (students who either had reduced their course load to part-time status or appeared not to have attempted to complete their studies) because the students' schools had not updated OSAP records to reflect these changes.
- Our own analysis to identify instances and patterns of reporting errors or abuse by students revealed unlikely circumstances that the Ministry ought to have questioned, such as students or parents reporting an increase of three or more dependent children from the previous year.
- The Ministry could further reduce the cost of defaulted student loans by several million dollars by making greater use of default management practices successfully employed in other jurisdictions. It had also not referred at least 60,000 additional defaulted loans on which collection efforts had been unsuccessful to the Canada Customs and Revenue Agency, which would collect the outstanding amounts from any future income tax refunds claimed by the debtors.
- The Ministry had made insufficient efforts to measure and report on the program's effectiveness. Loan default rates were the only published performance measure for the program. While the Ministry had been working with the federal government to develop more comprehensive performance measures for student assistance programs across Canada, no firm target date had been established for finalizing the measures or for collecting and reporting program results.

DETAILED AUDIT OBSERVATIONS

DETERMINING ELIGIBILITY AND LOAN ENTITLEMENTS

Overview of Loan Application Processing

The Ministry manages and reports OSAP activity on an operating year of August 1 to July 31. Unless otherwise specified, all figures in this report refer to this OSAP operating year. As of March 31, 2003, the province had guarantees outstanding on about 594,000 Ontario Student Loans totalling about \$2.4 billion that were held by banks and the Ontario Student Loan Trust. About \$1.1 billion (47%) was related to borrowers who had completed their studies and were repaying their loans. The remaining loans were held by students who were still in school or who had completed their studies within the six-month period ending March 31, 2003.

Between August 1, 2002 and March 31, 2003, the Ministry received 204,432 applications for financial assistance and approved the amounts outlined in the following table.

Student Loan Activity August 1, 2002 to March 31, 2003

	Loans Issued	Value of Loans Issued (\$ million)	Average Loan Value (\$)
Ontario Student Loans	130,824	444.5	3,400
Canada Student Loans	148,294	622.8	4,200
Total		1,067.3	7,600

Source of data: Ministry of Training, Colleges and Universities

All OSAP-designated schools have a Financial Aid Office (FAO) that serves the school's students. Students who attend Ontario colleges and universities, as well as those who attend approximately 50% of the province's private career colleges, are required to submit all supporting documentation to their school's FAO. (Students attending the remaining private career colleges must submit their documentation directly to the Ministry.) The FAOs also adjudicate any reviews related to a specific student's status or request for additional loan assistance. All these duties are governed by legislation, ministry policies, and procedural guidelines.

During the 2002/03 academic year, approximately 90% of the applications the Ministry received were submitted electronically using the Ministry's on-line Web site. Applications are electronically checked for accuracy, completeness, and eligibility criteria such as Ontario residency, registration at an approved postsecondary school in an approved program with at least 60% of the full course load, and whether the applicant is in good standing with OSAP.

The applicant's loan entitlement is determined based on such criteria as the student's family circumstances; the reported income of the student and of the student's parent(s) or spouse as applicable; expected educational costs; and the approved living allowances. The federal and provincial loan programs are very similar; however, there are a few eligibility criteria that differ. Thus, a separate determination of loan entitlement is required for each program.

After eligibility is approved and the entitlement determined, students must complete a "Confirmation of Enrollment" document at their school's FAO in order for the FAO to release their loan certificate. Students forward that "Certificate of Loan Approval and Entitlement" to the appropriate service provider. The service provider then either deposits funds in the student's bank account electronically or mails the student a cheque. Students normally receive 60% of their loan at the beginning of their first study term and 40% of their loan at the beginning of their second study term.

A student's assistance entitlements may change if the Ministry subsequently determines that the student's income/financial status, study period, or academic status differs for any reason from the information appearing on the student's application. A reassessment can be made at any time. Students are required to provide complete and true information and to notify the school's FAO promptly of any changes to their status.

Verifying Income

Students' income—and, where applicable, their parents' or spouse's income—is a key criterion for determining loan eligibility and loan entitlement amount. Since 1996 the Ministry has attempted to verify incomes reported on each OSAP application, both the student's and any supporting individual's, by comparing those incomes with incomes reported for tax purposes to the Canada Customs and Revenue Agency (CCRA). The Ministry verifies reported student, parental, and spousal income with CCRA twice a year, usually in November and the following May. If there is a discrepancy between the income reported to the Ministry on the OSAP application and the income reported to CCRA, the Ministry may reassess the student's loan entitlement up or down. A student who has significantly under-reported income is not eligible for any further loan assistance.

In 2001 the Ministry began summarizing the results of parental income verification. For parental incomes that were verified in November 2001 and 2002, the Ministry determined that it had provided excessive loan funding or loan overpayments of \$8.6 million to 15,000 students in these two years. Also, 2,800 of these students were denied their second loan disbursements, totalling \$3.7 million.

Ministry policy allows students to carry one loan overpayment regardless of the amount overpaid. The amount remains outstanding until students finish their schooling, at which point the amount becomes part of their outstanding loan balance. Students begin repaying their loans six months after completing their schooling. Students who incur a second overpayment are ineligible for further assistance until the amount is repaid.

While the Ministry did not routinely summarize the financial impact of spousal and student income verification, it did determine from the November 2002 verification that for approximately 4,300 students their verified income exceeded the income they reported on their application so significantly that it resulted in their permanent restriction from future OSAP funding. For a further 28,000 students, the difference was more than \$2,000, but the total amount of resulting loan overpayments was not determined by the Ministry.

The Ministry did not analyze the results of income verification to determine the risk of undetected abuse. For example, it had not determined the number of parents, spouses, and students whose income could not be verified and whether that number was growing or declining each year. The Ministry did not know whether there are students who have received loans for several years without ever having their or their supporting individual's income verified. Having such information would allow the Ministry to more effectively assess the risk of abuse over time and to focus its corrective action on areas of particular concern.

Our own analysis of the Ministry's parental income verification with CCRA for the three years ending July 31, 2002 determined that the Ministry was unable to verify parental income for more than 15,000 students, or about 7% of dependent students who received OSL entitlements during that period. About 9,700 (65%) of these students may have qualified for the maximum loan entitlement based on the low parental incomes reported on their OSAP applications. We also determined that more than 28,000 students had received OSL entitlements without having their own income verified during the three years ending July 31, 2001. Of those students, 24,000 (85%) reported incomes below the ministry-determined basic cost-of-living threshold of \$6,200. These cases warrant investigation given the overpayments identified by the Ministry's parental income verification efforts to date.

We found that the Ministry was verifying parental income with CCRA on a timely basis. However, spousal income was not verified until November of the year following the student's OSAP application—that is, after most students have received three loan disbursements. The delay in verification occurs because the Ministry follows the federal policy of using spouses' current year income estimates rather than prior year actual income when determining entitlements to both CSL and OSL. These estimates' accuracy cannot be verified until the year after the application is processed. Because they are supporting individuals, parents' and spouses' incomes have a similar impact on loan entitlement (unless the spouse is also a student). Consequently, parental and spousal incomes ought to be assessed and verified the same way and at the same time.

Student income was also not verified until the November following the year in which the student was approved for OSAP. Students thus received three loan disbursements before their income was verified. More timely verification will depend largely on getting more timely data from CCRA. We understand that the Ministry was exploring options with CCRA to improve the timeliness of student income verification.

Recommendation

To ensure that efforts to verify incomes reported on applications are effective and timely, the Ministry should:

- analyze the results of income verification to ascertain trends, identify cases where it is not working effectively, and take any necessary corrective action; and
- negotiate policy changes that will permit parental and spousal incomes to be verified at the same time.

Ministry Response

The Ministry will analyze the results of income verification to ascertain trends and identify cases where the process is not working effectively so that corrective action can be taken.

The Ministry is working with the Canada Customs and Revenue Agency to improve the timeliness of the income verification process and will explore verifying parental and spousal incomes at the same time.

Calculating Entitlements Where Applicants Report Income from Social Assistance

Both students and the spouses of married students are expected to work during the pre-study period to contribute to the student's educational costs. The Ministry expects a minimum contribution no matter how low a student's actual income is, except where social assistance is the main source of that income.

For students who indicate on their OSAP application that social assistance (Ontario Works, Family Benefits, and so on) was the main source of their or their spouse's reported income before starting their studies, *all* reported income is excluded from this calculation and the minimum contribution is waived, regardless of the total income reported. However, this policy can result in students' receiving more OSAP assistance than they are actually eligible for.

For example, we found several cases in which married students indicated that their spouse's income exceeded \$20,000, which is the maximum Ontario Works benefit. In four cases, the incomes exceeded \$50,000, and we referred these cases to the Ministry for follow-up. But because these students indicated on their OSAP application that Ontario Works was their spouse's main income source, all other reported income was excluded from the minimum contribution calculation. No reasonableness checks were built into the system to recognize higher levels of income where Ontario Works benefits or other forms of social assistance had been received.

Recommendation

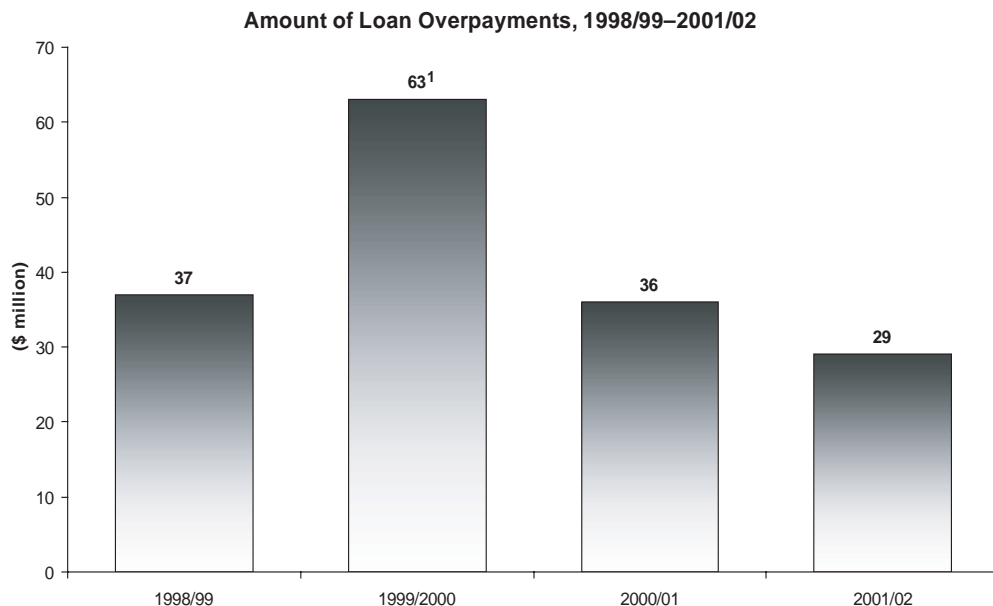
To properly determine entitlements in cases where spousal income includes social assistance as a source of income, the Ministry should correct existing loan-application processing procedures so that other significant reported income sources are considered.

Ministry Response

The Ministry will insert additional edit checks for 2004/05 for applications where spousal incomes include social assistance benefits.

REDUCING STUDENT LOAN OVERPAYMENTS

In addition to instances where income verification has identified that actual incomes are higher than students report on their application, loan overpayments can result from other changes to a student’s status. The student’s academic status or study period can change, or the student can formally withdraw. Such changes should normally prompt a reassessment of the student’s entitlement. When a student’s OSAP application is reassessed and it is determined that the student received more funding than the student was eligible for, the student is considered to have received an overpayment. In many cases, the reassessment is made after all loan disbursements for the year have been made. Over the four-year period from 1998/99 to 2001/02, the Ministry made OSL overpayments to students totalling \$165 million, as outlined in the following table.



¹ 1999/2000 was the first year that the Ministry began adjusting entitlements due to under-reporting of student income, contributing to the significant increase in identified overpayments.

Source of data: Ministry of Training, Colleges and Universities

As stated earlier, students are allowed to carry one overpayment until they finish their schooling. As long as the student remains in school, the Ministry pays on the student's behalf the interest that accrues on that student's loan. Thus, taxpayers are subsidizing the interest carrying costs on any overpayments. At an average interest rate of 5.8%, these costs amounted to approximately \$2.5 million annually between 1998/99 and 2001/02. In addition, the taxpayers reimburse the banks and the Ontario Student Loan Trust for all defaulted loans, including any overpayments. Based on the 2002 default rate of 13.9%, overpayments between 1998/99 and 2001/02 have likely cost taxpayers at least \$6 million annually (and likely more, because earlier years' default rates were higher). By minimizing overpayments, the Ministry would reduce interest costs and also reduce the amount of loans at risk for future loan defaults.

The Ministry does not analyze the main sources of overpayments to determine needed corrective action. Two major reasons why loan overpayments occur are under-reporting of either the student's own or a supporting individual's income, and early withdrawal from studies. The Ministry could take at least three actions to reduce overpayments, as discussed below.

Adjusting the Timing of Loan Advances

One way to reduce the risk of significant overpayments and the associated interest and default costs is to match assistance payments more closely to students' cash flow requirements. Some jurisdictions advance student loan funding on a monthly basis. However, Ontario students who are enrolled in three terms, or 52 weeks, of study, often receive all of their loan disbursements after attending only one term of study. These students still have 34 weeks of studies to complete.

Our analysis of loans approved in 2001/02 determined that some 8,600 students of the 19,000 students enrolled in three terms of study that year had received their entire loan by early in the second term. For example, one student's loan entitlement was \$20,460 to attend a 51-week program from September 2001 to August 2002. The entire amount had been paid to the student by the beginning of January 2002, even though the student still had eight months of classes to complete.

Advancing all of the loan funding before students have completed the majority of their studies creates the potential for large overpayments if a student's loan entitlement changes (for example, due to a change in the student's financial or academic status). The timing of loan disbursements could thus be a significant contributing factor to the number and size of loan overpayments. In addition, better matching of loan advances to students' cash flow requirements may assist students to prudently manage their finances.

Monitoring Academic Status

OSAP recipients are required to maintain full-time status (defined as taking at least 60% of a full course load) in order to remain eligible for OSL assistance and any OSOG. The

Ministry requires Financial Aid Offices (FAOs) to monitor academic status during the school year and to report students who withdraw from school or reduce their course load to part-time status.

During our review of student files at the FAOs we visited, we found several students whose status should have been reported as part-time but who were recorded in the OSAP system as full-time. After our visits, the FAO staff corrected the students' status. These status changes reduced loan entitlements, thereby creating loan overpayments on which the Ministry continues to pay interest.

As stated earlier, one factor contributing to loan overpayments is a student's early withdrawal from studies. A reported withdrawal triggers a loan entitlement revision. Timely reporting of student withdrawals is thus critical for limiting loan overpayments. The Ministry indicated to us that it expected FAOs to report withdrawals to the OSAP system within 30 days, although ministry policy was not clear in this regard. We found, however, that for 2000/01 and 2001/02 about 60% of the withdrawals reported by postsecondary schools to the Ministry (6,300 students) were reported more than 30 days after the actual withdrawal date.

Thus, both advancing the majority of loan funding early in the study period and reporting withdrawals late increase the risk of significant loan overpayments.

Reviewing Requirements for Repayment

The Ministry might also consider changing policies that may inhibit prompt and accurate reporting by students. As stated earlier, the Ministry allows students to carry one loan overpayment until they finish school, regardless of the amount overpaid. However, loan overpayments always result from the student's own actions, whether deliberate or inadvertent. If assistance is to be fairly administered, both the cause and amount of the overpayment ought to be a factor in deciding what action to take. However, only in cases where significant under-reporting of income is detected will the student be denied future assistance and be required to begin repaying the loan.

We determined that in 2000/01 and 2001/02, approximately 18,000 students received an OSL overpayment of between \$1,000 and \$5,000. A further 554 students in these two years received an OSL overpayment that exceeded \$5,000. We calculated that the interest paid by the Ministry on overpayments greater than \$1,000 was approximately \$1.7 million and \$550,000 for these two years, respectively. This is a significant portion of the \$2.5 million we estimate the Ministry pays annually on overpayments. Limiting the amount of allowable overpayment, particularly in cases where the student has not reported accurate information to the Ministry, would therefore save significant interest costs and discourage program abuse.

Recommendation

To minimize the occurrence and size of loan overpayments and to reduce the related interest and default costs, the Ministry should:

- analyze loan overpayments yearly to determine the main reasons for them and take corrective action based on the results;
- match the timing of loan disbursements more closely to students' cash flow requirements;
- ensure that all Financial Aid Offices monitor students' academic status during the entire year and promptly record any changes to that status on the OSAP information system in accordance with ministry expectations; and
- consider limiting the amount of loan overpayment that a student who has not reported accurate information to the Ministry is permitted to retain.

Ministry Response

The Ministry will undertake analyses of the reasons for loan overpayments and consider changing the number of disbursements from two to three for students enrolling for three terms in a year, possibly beginning in 2004/05.

The Ministry will work with Financial Aid Offices at institutions to provide more timely reporting of changes to academic status.

The Ministry's loan overpayment policy attempts to balance students' needs for funding to complete their studies against additional costs to taxpayers. The current policy allows students to defer one loan overpayment while they are in school and to repay it after they have completed their studies and are in a better position to repay the loan.

CONTROLLING ONTARIO STUDENT OPPORTUNITY GRANT PAYMENTS

The Ontario Student Opportunity Grant (OSOG) replaced the Loan Forgiveness Program in 1998/99. OSOGs help students reduce their annual student debt level to \$7,000 for a two-term academic year or \$10,500 for a three-term academic year. Students must meet certain other requirements before receiving an OSOG. The main requirements are completing their registered terms (whether two or three) on a full-time basis, having income verified with CCRA (as we recommended in 1997 for the previous Loan Forgiveness Program), and not having defaulted on any previous student loans.

Students do not have to apply for an OSOG. Once the eligibility requirements have been met, the OSOG is paid directly to the service provider to pay down the student's loan. Over the 2001/02 and 2002/03 fiscal years, the Ministry paid out over \$241 million in OSOGs.

We visited several postsecondary schools and examined the academic records of students who received OSOGs to determine whether they had met the Ministry requirements. We also tested a sample of student files from other schools across the province. We concluded that most OSOG payments were being calculated correctly and were being paid only to eligible students. However, we found that OSOG payments had been made incorrectly in three situations: where students were deemed to be full-time but were actually part-time, where three-term students who received an OSOG did not complete their third term on a full-time basis; and where students had failed to complete their academic year but had not formally withdrawn.

We found three cases in our sample where the student was taking only a part-time course load. Because they were never reclassified from full-time to part-time status, these students received about \$17,000 in OSOGs they were not entitled to. We found a further six students in our sample who had completed only two terms as full-time students but were granted OSOGs for three terms. These students, too, incorrectly received OSOGs totalling approximately \$17,000. Although the FAOs involved corrected the OSAP records once we brought the cases to their attention, the Ministry had no process for recovering the incorrectly paid OSOGs from the Ontario Student Loan Trust.

The OSOG regulation states that if a student withdraws or is expelled from one or more academic terms, any loan received in that term is ineligible for an OSOG. We reviewed a sample of student academic records at the schools we visited to determine if students had genuinely attempted to complete the academic year. To qualify for an OSOG, a student does not need to succeed academically, but the student should at least be clearly trying to complete his or her studies. However, we saw a risk that certain students might not formally withdraw but might nevertheless make no attempt to complete the year by attending classes, submitting assignments, and/or writing final examinations.

To determine whether this was occurring, we reviewed a sample of OSOG recipients' final grades for 2001/02 for evidence that students had actually attempted to complete their year rather than simply quitting but not formally withdrawing. We did find seven students whose grades were all zeros or Fs. These students may have incorrectly received up to \$12,000 in OSOGs. We believe it is quite possible that such students did not genuinely try to complete their year, but the FAOs involved did not have a process to identify and investigate such students.

Due to the nature of postsecondary education (particularly the lack of formal attendance requirements), it is difficult for FAOs and the Ministry to verify a student's academic status. However, we found that midway through the year, before the second loan disbursement, a few FAOs were trying to identify students who had stopped attending classes. These FAOs first identified all students with low grade-point averages, and then required those students to submit a form signed by their professors confirming that the student had attended classes regularly. Students who did not submit properly signed forms no longer qualified for OSAP, and their second loan disbursement was therefore not paid. However, most FAOs did not make this kind of effort.

To produce similar savings for OSOGs, the Ministry would need to require all schools to establish a similar process at the end of the year (in conjunction with the academic progress evaluations that already take place). Determining at that point which students had stopped attending classes before the end of the term would prevent the Ministry from paying OSOGs on behalf of students who are not legally entitled to them.

Recommendation

To ensure that only eligible students receive Ontario Student Opportunity Grants, the Ministry should work with postsecondary schools to identify students who reduce their course load to part-time status and students who do not formally withdraw from their program but make no attempt to complete the academic year.

Ministry Response

The Ministry will work with Financial Aid Offices at institutions to identify and implement best practices that will lead to more timely and accurate reporting of students' academic status.

MANAGING THE RISK OF PROGRAM ABUSE

Many components of OSAP are administered in a decentralized manner, relying on postsecondary schools to play a key role in ensuring that OSAP responds to student needs and that legislated and OSAP policy requirements are met.

In response to our 1997 audit, the Ministry established specific performance requirements in order to better manage its relationships with the schools. In addition, the Ministry implemented OSAP compliance audits for all three types of schools. The objective of the audits is to provide the Ministry with independent assurance that FAOs are administering OSAP in accordance with ministry policies and procedures.

Compliance audits for all OSAP-eligible private career colleges have been completed annually since 1998. Audit results have steadily improved each year. In addition, special audits were conducted in the few cases where serious deficiencies were detected by previous compliance audits. The Ministry also requires private career colleges to publish graduation and employment rates each year for each of their OSAP-approved programs.

Publicly funded colleges and universities were last audited in OSAP's 1998/99 fiscal year; the next round of audits was scheduled to be completed in mid-2003 for OSAP's 2001/02 fiscal year. The initial audits did not detect significant instances of non-compliance.

While the Ministry has introduced several initiatives to improve administration and reduce the risk of program abuse by schools, it has done less to identify risks and incidences of abuse by students. The Ministry already captures extensive information on students that can be

used or analyzed to reduce the risk of abuse. But the Ministry had not determined the types of analyses that would be most effective in identifying students who abuse OSAP.

We undertook several such analyses as part of our audit. For example, we detected a significant number of sole-support and married students who received additional funding by claiming an increase of three or more children from the previous year. Specifically, we found 78 students who reported an increase of three or more dependent children from the previous year: 21 of these students reported an increase of five or more dependent children. We advised the Ministry of this, and subsequent investigation by the FAOs involved when following up on our request for the documentation determined that most of these applications had been completed incorrectly and that the errors were likely inadvertent. All errors were promptly corrected. In 20% of the cases we examined, the student's loan entitlement had to be reduced as a result of this correction, creating a loan overpayment. Moreover, the risk that this type of error will go undetected is greater for married students—because, unlike sole-support students, they are not required by the Ministry to submit documentation to support the number of children they claim.

We also found 181 parents of OSAP-eligible students who reported an increase of three or more dependent children in one year. Of these, 46 reported an increase of five or more dependent children. Again, the student's loan entitlement was likely inflated in several of these cases. We referred these cases to the Ministry for follow-up.

The risk of OSAP abuse can be high. The Ministry stated in its 2001/02 business plan that it was planning to establish consistent baseline data on the incidence of fraud and inappropriate use of OSAP. Also, the Ministry was planning to establish a hotline for individuals to report suspected OSAP abuse. Neither plan had been implemented at the time of our audit.

The Ministry's OSAP Inspection and Compliance Unit's Student Verification Officers are responsible for examining student loan files to verify information provided, determine compliance with OSAP criteria, and undertake initiatives to reduce OSAP abuse. The Ministry did not maintain a team of student verification officers during the 2002/03 year. As a result, the Ministry did not track the source, frequency, nature, and results of the cases that were referred to the unit for review.

Alberta has a similar group that verifies or audits student loan accounts. The audits or verification efforts are categorized according to what triggers them—for example, public complaints, program staff referrals, or data matching with other government information sources such as social assistance or CCRA records. They also track their audit results by the frequency and amount of over-awards identified to detect chronic problem areas and to demonstrate the cost-effectiveness of the audit process.

Recommendation

To minimize the risk of OSAP abuse by students, the Ministry should use its extensive database to identify individual cases of potential abuse and analyze summary statistics for possible trends warranting investigation and, where necessary, appropriate corrective action.

Ministry Response

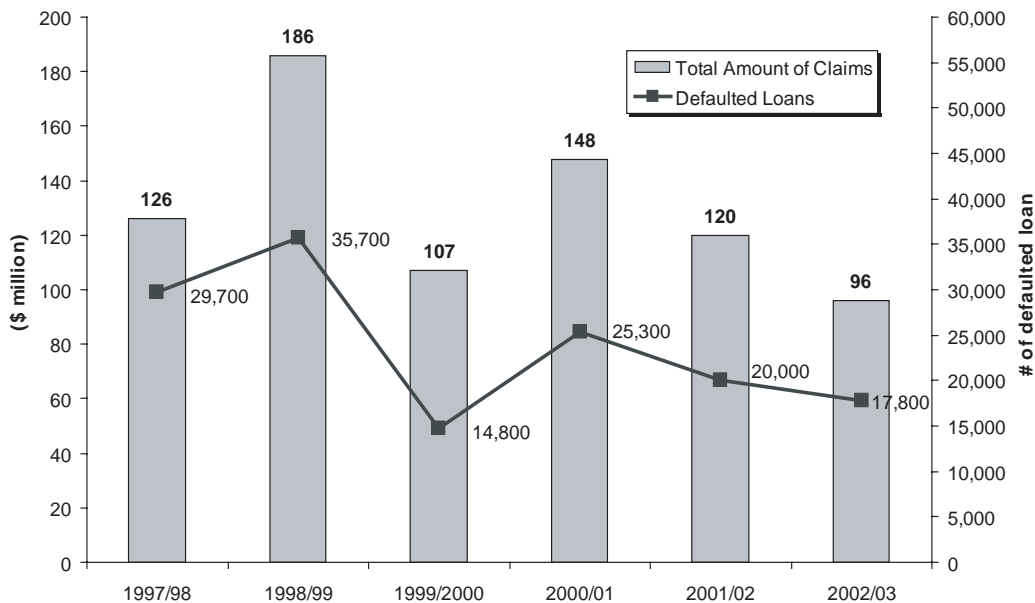
The Ministry will consider expanding its use of the OSAP database to identify individual cases of potential abuse by students and to identify trends warranting investigation.

REDUCING DEFAULTED STUDENT LOANS

Students are expected to repay their loans, including any overpayments. But the province guarantees all student debts, so the Ministry reimburses the financial institution or the Ontario Student Loan Trust for any defaulted student loans. The Ministry then sends default claims to private collection agencies, which attempt to recover these funds from the borrowers on the government’s behalf.

Since 1997/98, the Ministry has paid approximately \$783 million to the financial institutions to cover 143,300 defaulted student loans. Although they have been generally declining, as indicated in the following chart, defaults on student loans are a major OSAP cost—in 2002/03, they represented nearly 27% of OSAP expenditures.

Student Loan Defaults, 1997/98–2002/03



Source of data: Ministry of Training, Colleges and Universities

Because of the escalating default trend at the time of our 1997 audit, the Ministry took several actions, including: publishing annual default rates by school and program; removing OSAP approval from schools that were not meeting performance requirements; requiring schools with high default rates to implement default reduction strategies and to share default costs; and introducing credit screening for new loan applicants. These initiatives undoubtedly contributed to a decline in the default rate, from 23.5% for 1997 to 13.9% for 2002.

The Ministry's goal is to reduce the default rate to less than 10% by 2005. By comparison, the loan default rate in the United States (where the same methodology is used for calculating default rates) for the 10-year period ending in 2002 declined from 22% to 5.9% due to many changes in loan management and the implementation of various default management strategies.

In Ontario, based on the average 2001/02 default loan claim, every 1% reduction in the default rate saves at least \$3.5 million annually. If the Ministry can reach the same default rate as the United States, the province would save a further \$28 million annually.

Adopting Practices of Other Jurisdictions

As noted above, the Ministry has implemented many tools and strategies to reduce its default rate, but additional measures may be needed to ensure that the default rate continues to decline. Other jurisdictions have introduced several measures aimed at lowering their default rates and the cost of defaulted loans. For example:

- The Ministry could remind students each year that they have a loan they must repay when they leave school by providing them with an annual statement showing how much they have borrowed to date.
- The Ministry could also identify high-risk borrowers, such as married and sole-support students, who would benefit from special counselling, either individually or in groups, to help them successfully establish and complete repayment and avoid defaults. Between 1998/99 and 2001/02, married and sole-support students accounted for less than 20% of total loans issued, but 40% of total loan defaults. As well, the current contract with the service providers does not require them to focus on these high-risk cases.
- Students who leave school before completing their programs, especially within the first year of enrolment, are known to have a high likelihood of defaulting on their loans. For 2000/01 and 2001/02, the default rates for students who did not complete their studies were more than double the default rates for students who completed their studies. We understand that the federal government is considering implementation of an early withdrawal management program.

As part of our audit, we conducted a survey of college and university FAOs to identify best practices for encouraging loan repayment and to determine areas of needed improvement.

In addition to the approaches noted above, many of the FAOs that responded made the following suggestions:

- Mandatory entrance counselling on OSAP responsibilities could be required before students receive their loans. This practice has been used in the United States for several years. FAOs also indicated that effective exit counselling once a student's education was nearly complete was important because students often lack information, experience, and assistance in managing their finances and meeting their debt responsibilities.
- Better communication with students could take place to educate them about their debt responsibilities and about the available repayment options. Many FAOs stated that if this information was provided at the time of loan disbursement or at the start of each semester, students would be more aware of their current level of indebtedness.

Use of the Income Tax Set-off Program

In January 1999, to improve collections of defaulted student loans, the Ministry implemented an income tax set-off (ITSO) program where efforts to collect defaulted student loans had been unsuccessful. Under the ITSO program, the Governments of Canada and Ontario can withhold a defaulter's income tax refund and apply the proceeds against the amount owing on a defaulted student loan. As stated earlier, all defaulted Ontario Student Loans are first sent to private collection agencies, which attempt to recover the loan amount. After the private collection agency has attempted to collect funds for a minimum of one year without success, the Ministry may ask that the account be returned to the Ministry and set up for ITSO.

The Canada Customs and Revenue Agency is required to notify people identified for ITSO that their income tax refund may be withheld. Defaulters then have the opportunity to make arrangements with the Ministry to start repaying the outstanding debt instead of having their income tax refund withheld. Up to March 31, 2003, the Ministry had collected \$8.4 million from this initiative: \$6.8 million from ITSO and \$1.6 million from people who had made payment arrangements with the Ministry to avoid ITSO.

Since the ITSO program started, the Ministry has asked that approximately 27,000 accounts be returned from the private collection agencies for ITSO. However, from 1996/97 to 2000/01, approximately 120,000 defaulted accounts would have met the Ministry's initial eligibility criteria of at least one year of collection activity. Ministry staff informed us that staffing constraints limited how many defaulted student loan accounts could be set up for ITSO: the Ministry was not equipped to handle a large volume of debtor inquiries related to ITSO accounts. In January 2003, the Ministry increased the number of accounts established for ITSO by 40% from the previous year, but there are still at least 60,000 accounts available that could be set up for ITSO.

Recommendation

To continue reducing the losses arising from defaulted student loans, the Ministry should:

- implement best practices used successfully in other jurisdictions to reduce the risk and cost of defaulted student loans; and
- establish income tax set-off arrangements for all defaulted loan accounts for which normal collection efforts have been exhausted.

Ministry Response

Within Canada, Ontario is a leader in default prevention. The Ministry expects further decreases in the default rate as a result of new default management arrangements in place or planned with the federal government and its service providers. For example:

- *the service providers can work for up to 270 days with borrowers who are experiencing difficulties making their loan payments, whereas banks declare loans in default after just 90 days of non-payment;*
- *Ontario and the federal government have introduced extended interest relief and debt remission programs to provide more help to borrowers who are experiencing difficulties;*
- *students will soon be able to go on-line to check their accounts; and*
- *the service providers are developing a risk model to identify students who may be more prone to defaulting.*

The Ministry is seeking to make arrangements that would allow it to move a larger number of defaulted loan accounts to the income tax set-off program. The Ministry will approach Management Board's Collection Management Unit to explore the possibility of undertaking an aging analysis of defaulted loans in collections and to review the criteria for transferring defaulted loans to the income tax set-off program.

EXPANDING PERFORMANCE REPORTING

In our 1999 follow-up of recommendations made regarding OSAP in the *1997 Annual Report*, we reported that the Ministry had introduced several performance measures. We also reported that plans for harmonizing the federal and provincial assistance programs would allow the Ministry to compare these performance measures, as well as new measures on student indebtedness and ability to pay, with parallel measures in other jurisdictions.

In May 1999, the *Canada-Ontario Agreement on Harmonization of Federal and Provincial Student Loans Programs* was signed. The measures agreed to at that time were:

- Access—the ability of individuals to pursue postsecondary studies regardless of the level of financial support available from their families;

- Completion/non-completion rates—the proportion of students completing their program of study;
- Student indebtedness and capacity to pay—the amount of payment relative to the individual's income; and
- Default rates.

In July 2001, both parties signed an integration agreement for student loans. The performance measures previously agreed upon remained unchanged.

In 2001/02, the Ministry's only published performance measure for OSAP was default rates program-wide, by school, and by individual program of study. The Ministry also reported graduation and employment rates for each OSAP-approved private career college program. (Public postsecondary schools publish graduation and employment rates for each of their programs themselves.)

In April 2003, the federal government and most provinces agreed to a national "Designation Framework." (Designation is the process used to approve institutions for student loan purposes.) The Framework's four principles are taxpayer protection, accountability and informed choice, consumer protection, and complementarity to other postsecondary education policies.

According to the Ministry, this Framework is now the basis for the development of OSAP performance reporting. All participating provinces are to develop and report common performance measures to allow comparability. The three categories of performance measures agreed upon by all jurisdictions were:

- Portfolio performance—for example, repayment data and default data;
- Institution performance—for example, administrative compliance and student support services; and
- Student performance—for example, completion data, employment data, and withdrawal data.

While some of the proposed measures are available from the Ministry's current performance information, other existing measures may have to be amended and some new measures may have to be introduced.

Recommendation

To evaluate and report on the effectiveness of Ontario Student Assistance Program and strengthen accountability, the Ministry should establish deadlines to begin publicly reporting the agreed-upon performance measures.

Ministry Response

As the Provincial Auditor states, Ontario already has introduced public reporting of performance measures, including graduation and graduate-employment rates and student loan default rates. Federal, provincial, and territorial officials are currently working to develop and finalize the performance measures. Once finalized, the measures will be combined to create an institutional risk “scorecard” to identify where action with a particular institution is required. Officials are required to report back to Ministers on progress at the Council of Ministers of Education, Canada meeting in fall 2003. Jurisdictions are expected to have developed their performance measures by September 2004. Implementation is scheduled to begin in fall 2004.