

Chapter 4

Ministry of Training, Colleges and Universities

Section 4.10

Ontario Student Assistance Program

Follow-up to VFM Section 3.10, *2003 Annual Report*

Background

The Ontario Student Assistance Program (OSAP) is a provincially administered and 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.

For the 2004/05 fiscal year, provincial OSAP expenditures totalled \$327 million (\$356 million in 2002/03). These expenditures include default claims on 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.

In our *2003 Annual Report*, we concluded that, since our 1997 audit of OSAP, the Ministry had taken action to address a number of our recommendations and significantly improve the overall administration of the program. Notwithstanding these improvements, there were several areas where further action was required. In particular:

- The Ministry had paid about \$2 million more annually in interest costs and risked at least \$6 million more in annual default costs than it should have because some loan advances to students were paid earlier than necessary; except in cases where students had significantly under-reported their income, its repayment policies for loan overpayments were too permissive; and there was a lack of effective monitoring of academic status changes by postsecondary schools. Effective monitoring would have reduced students' financial assistance; the lack of such monitoring caused the Ministry to pay loan forgiveness grants to students who were not eligible to receive them.
- 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 in their applications an increase of three or more dependent children from the previous year.
- The Ministry could have further reduced 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 have collected the outstanding amounts from any future income tax refunds owing to the individuals with the defaulted loans.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take action to address our concerns.

Current Status of Recommendations

According to information obtained from the Ministry of Training, Colleges and Universities, the Ministry has taken some action on all of the recommendations we made in our *2003 Annual Report*. The current status of action taken on each of our recommendations is as follows.

DETERMINING ELIGIBILITY AND LOAN ENTITLEMENTS

Verifying Income

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.*

Current Status

After our 2003 audit, the Ministry indicated that it had undertaken further analysis and deter-

mined that under-reporting of income is one of the primary causes of overpayments. The Ministry amended OSAP regulations under the *Ministry of Training, Colleges and Universities Act* to specify the circumstances under which the Minister may place restrictions on future eligibility for student loans, including instances where incorrect information was provided by a student. We were advised that the Ministry was still defining the process to be followed on how to consistently deal with loan overpayments that were the result of students under-reporting their income or the income of their parents or their spouses.

The Ministry is working on a Memorandum of Understanding with the federal government to address income verification. Since the Ministry has acknowledged that the under-reporting of income is one of the primary causes of overpayments, requiring income reporting and appropriate periodic verification of income reported by students who are receiving ongoing loan assistance is a critical internal control.

The Ministry indicated that changes in policy regarding income verification must be negotiated with the federal government, that it has held discussions with the federal government on income verification, and that the negotiations are still in process. According to the Ministry, the specific issue of verifying spousal income at the same time that parental income is verified was raised in February 2005. At the time of our follow-up, this issue was continuing to be negotiated in conjunction with the federal government's review of the methodology for needs assessment, and a working group had been created with representatives from the federal government and other provinces to address this issue.

The Ministry advised us that it had not yet finalized what actions would be taken against students who under-report income and that it would continue to actively investigate the most serious cases of significant under-reporting.

Calculating Entitlements Where Applicants Report Income from Social Assistance

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.

Current Status

In its 2003 response to this recommendation, the Ministry indicated that it would insert additional edit checks when processing 2004/05 loan applications. However, we were advised during our follow-up that, due to the low numbers of occurrences where spousal income includes social assistance, the Ministry is monitoring the individual occurrences through manual verification checks.

The Ministry advised us that since March 2005, it has also been examining ways of improving the data match agreement with the Ministry of Community and Social Services in order to identify individuals with social assistance income.

REDUCING STUDENT LOAN OVERPAYMENTS

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.*

Current Status

At the time of our follow-up, the Ministry had reviewed the reasons for loan overpayments, had communicated this information to the federal government, and had indicated that OSAP policy changes and extensive negotiations with the federal government would be required to address the reasons for overpayments. The Ministry informed us that it was proposing to investigate serious cases of income under-reporting and would use the results of the investigation to determine future policy work.

With respect to adjusting the timing of loan disbursements, we were advised that a request for proposals would be issued in fall 2005 by the federal government for a loan service provider that could also make monthly loan disbursements. The Ministry indicated that, subject to ministerial approval and the successful selection of a service provider, it would move to monthly disbursements of student loan funding. The earliest possible date for initiating monthly disbursements would be the 2006/07 academic year.

In September 2004, the Ministry posted a reminder to financial aid administrators on its website that changes identified when they confirm a student's enrolment are to be processed on a timely basis to ensure that student accounts are reassessed and updated appropriately. In November 2004, the Ministry posted an additional reminder to financial aid administrators that they are required to monitor students' academic status for the purpose of releasing loan funding appropriately.

In this regard, the monitoring of students' academic status was found to be one of the main deficiencies found in compliance audits completed at public institutions in 2004 for the 2001/02 academic year. As a result, the Ministry formed an audit working group, consisting of financial aid administrators and ministry personnel, to

identify best practices and disseminate them to all institutions.

With respect to limiting the amount of loan overpayments students can retain, the federal government was seeking approval to include a provision in the Canada Student Financial Assistance Regulations that would give the federal Minister authority to recover amounts of loans and/or grants issued to students that exceeded the amounts they were entitled to. The Ministry advised us that it was closely monitoring the federal initiative and will be assessing whether the federal changes are practical and reasonable for Ontario to implement as well.

CONTROLLING ONTARIO STUDENT OPPORTUNITY GRANT PAYMENTS

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.

Current Status

The audit working group formed by the Ministry in 2004, composed of ministry and financial aid office personnel, has a mandate to:

- discuss and address recent compliance audit findings that include instances of non-compliance with Ontario Student Opportunity Grant requirements; and
- improve the audit process to ensure that it is cost effective.

We were advised that compliance audit guidelines/procedures for the 2004/05 academic year were to be released in fall 2005.

MANAGING THE RISK OF PROGRAM ABUSE

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.

Current Status

In fall 2004, the Ministry completed some preliminary analysis on students reporting significant increases in dependants from the previous academic year and identified savings in both loans and grants totalling approximately \$167,000. The Ministry is considering a requirement that students who report an increase in dependants from one year to the next provide supporting documentation.

The Ministry informed us that, in view of the recommendations relating to student support programs in the Postsecondary Education Review issued in February 2005, it is reviewing the availability of resources to undertake further data analysis.

REDUCING DEFAULTED STUDENT LOANS

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.*

Current Status

The Ministry has taken additional steps to reduce loan defaults as follows:

- The Ontario Debt Reduction in Repayment (DRR) program was implemented in November

2004 to assist borrowers facing exceptionally long-term financial difficulty by forgiving a portion of their outstanding loan principal, thereby lowering their monthly loan payments. The DRR program is available to borrowers who have been out of school for at least five years and have exhausted all available periods of interest relief (that is, six-month periods during which the government pays interest on the borrower's behalf and borrowers are not required to make any payments). It is hoped that the student, by having a portion of his or her loan forgiven, will be able to repay the remaining loan instead of defaulting on the entire loan amount. Since the program was only recently implemented, its success in reducing loan defaults is unknown.

- Starting in September 2004, students were able to check the status of their loan on-line. The goal of this provision is to improve students' awareness of their debt levels.
- The Ministry informed us that, once a new service provider is in place, it will negotiate, through the federal government, default management arrangements with the service provider for high-risk borrowers who warrant additional attention.

As for arranging for income tax set-off for defaulted accounts, the Ministry has increased the number of accounts subject to this arrangement by 40,000 over the past two years, raising the total number of such accounts from 27,000 to 67,000.

EXPANDING PERFORMANCE REPORTING

Recommendation

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

Current Status

At the time of our follow-up, the Ministry was publicly reporting on graduation and employment rates of students and loan default rates. The reporting of these measures meets the initial reporting requirements under the Pan-Canadian Designation Policy Framework, implemented in November 2004 after approval by federal and provincial officials (the Framework guides governments in developing, implementing, and maintaining policies relating to how designated educational institutions manage student financial assistance).

Ontario has committed to actively participating in the further development of the Framework, including the creation of additional indicators. At present, the Framework has two indicators for assessing and monitoring the performance of educational institutions. The administrative compliance indicator deals with how appropriately institutions administer their student loan programs. The repayment indicator measures institutional financial risk by calculating student loan repayment rates for each institution. Institutions assessed to be at moderate or high financial risk are to be identified and given repayment-rate performance-improvement targets and may be subject to specified interventions and sanctions.

A student assistance policy working group, comprising federal and provincial representatives, met in February 2005 to review potential student loan program performance measures. Further meetings are to be held during the 2005/06 fiscal year.