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Assembly
of Ontario



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de l'Ontario

STANDING COMMITTEE ON PUBLIC ACCOUNTS

ONTARIO STUDENT ASSISTANCE PROGRAM (Section 4.10, 2005 Annual Report of the Auditor General of Ontario)

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The Honourable Michael A. Brown, MPP
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report and commends it to the House.

Norman Sterling, MPP
Chair

Queen's Park
December 2006

STANDING COMMITTEE ON PUBLIC ACCOUNTS

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PREAMBLE

The Standing Committee on Public Accounts held hearings on the Auditor General's 2005 follow-up to the 2003 audit of the Ministry of Training, Colleges and Universities' Ontario Student Assistance Program – OSAP – (section 4.10 of his *2005 Annual Report*) on April 20, 2006. The Committee has endorsed the Auditor's findings and recommendations.

This report constitutes the Committee's findings and recommendations as they relate to those areas of the OSAP follow-up that were of particular interest to Committee members. Background information on sections of the original audit report is followed by an overview of the hearings' main findings and, as appropriate, new recommendations. *Hansard*, the verbatim record of the hearings, should be consulted for the complete proceedings.

Acknowledgements

The Committee extends its appreciation to officials from the Ministry of Training, Colleges and Universities for their attendance at the hearings. The Committee also acknowledges the assistance provided during the hearings and report writing deliberations by the Office of the Auditor General, the Clerk of the Committee, and staff of the Legislative Library's Research and Information Services.

1. AUDIT OBJECTIVES AND MAIN FINDINGS

The 2003 audit's objectives were to assess whether key financial and management systems and procedures were sufficient to ensure that:

- the program was delivered economically, efficiently and in accordance with stated goals and objectives, legislated authority, and approved policies and guidelines; and
- effectiveness in achieving stated goals and objectives was reliably measured and reported.¹

The 2003 audit concluded that the Ministry had taken a number of actions to address many of the Auditor's 1997 recommendations and significantly improve OSAP's overall administration. However, several areas required further action. These included:

- permissive policies for loan overpayments and a lack of effective monitoring of academic status by postsecondary institutions;
- unlikely circumstances that the Ministry ought to have questioned when reviewing applications for assistance (e.g., an increase of three or more dependant children from one year to the next); and
- greater use of loan default management practices employed in other jurisdictions.²

2. COMMITTEE REQUEST FOR MINISTRY RESPONSE

The Committee requests that the Ministry of Training, Colleges and Universities provide the Committee Clerk with a written response within 120 calendar days of the tabling of this report with the Speaker of the Legislative Assembly, unless otherwise specified in a recommendation, as is the case in recommendation 1.

2.1 Committee Recommendations

1. The Ministry of Training, Colleges and Universities provide the Committee with an update on the progress being made regarding changes to the loan disbursement schedule by the fall of 2007, as the earliest date for implementation is 2007/08.
2. The Ministry of Training, Colleges and Universities report to the Committee on its development of a policy response to serious cases of under-reported income and on the early results from the implementation of its web interface with the Ministry of Community and Social Services.
3. The Ministry of Training, Colleges and Universities report to the Committee on the status and components of its restriction policy on future OSAP eligibility.
4. The Ministry of Training, Colleges and Universities report to the Committee on what if any success the Ontario Debt Reduction in Repayment program has had in reducing loan defaults.
5. Given that loan default rates are rising again, the Ministry of Training, Colleges and Universities reinstate a target loan default rate, advise the Committee of the target and the rationale if it is different from the previous 10% target, and provide the Committee with an explanation of further actions it has taken or intends to take to achieve the target within a specific time period.
6. The Ministry of Training, Colleges and Universities provide the Committee with a status report on the Centralized Collection Unit initiative, in conjunction with Ontario Shared Services.
7. The Ministry of Training, Colleges and Universities report on the results of negotiations with the federal government aimed at reducing loan defaults and improving the collection of defaulted student loans, including greater use of the income tax set-off program.

The Committee wishes to recognize the work of current and former Ministry staff who participated in the resolution of problems associated with OSAP, as identified by the Auditor. They are to be commended for their actions.

3. OVERVIEW

OSAP is administered by the province but funded by the provincial and federal governments. It provides needs-based financial assistance to full-time students enabling them to attend approved post-secondary institutions (public colleges and universities, and many private career colleges). Provincial financial assistance is provided primarily under the Ontario Student Loans (OSL) program. The Ministry also administers the Canada Student Loan (CSL) program and the Canada Millennium Bursary on behalf of the federal government.

Assistance takes the form of loan guarantees, loan forgiveness grants, and interest subsidies while a student attends school, interest relief during repayment, and various need- and merit-based bursaries and scholarships. The amount of loan funding is based on financial need but cannot exceed a set weekly amount which varies for different types of students.

Up to July 31, 2001, financial institutions provided OSLs directly to students. As of August 1, 2001, two service providers selected by the federal government began administering the loans.³ Loans are now issued directly to students using funds provided by both levels of government through the OSL Trust.⁴

The 2005 provincial budget included an additional \$6.2 billion investment in universities, colleges, training, apprentices, and students by 2009/10. One component was more student assistance.⁵ The next day, the Minister of Training, Colleges and Universities announced details of the government's plan for postsecondary education, 'Reaching Higher.' It included improved financial assistance for 135,000 students and tuition grants for 32,000 from low income families in their first or second year at college or university.⁶ Ministry staff advised Committee members that the plan contained \$1.5 billion in student aid.⁷

Student aid was also referred to in the 2006 provincial budget. The government reintroduced "upfront grants" and would be providing them to 60,000 students in 2006/07. It would also guarantee that "students who receive government loans of more than \$7,000 per year will have the excess amount forgiven."⁸

Access to grant eligibility is being extended to students from families earning up to about \$75,000. Ministry staff estimated that, as a result, about 27,000 more grants would be provided than in 2005/06. Another enhancement was the updating of the book and supply allowance for the first time in more than 20 years. This is expected to benefit about 138,000 students.⁹

OSAP expenditures for 2004/05 totalled \$347 million.¹⁰ At the time of the hearings, OSAP statistics for 2005/06, year to date, included the following:¹¹

# of recipients	185,000
Total funding issued	\$1.52 billion
# of web applications	228,578
% of students applying online¹²	97.34

AUDIT OBSERVATIONS AND RECOMMENDATIONS

4. DETERMINING ELIGIBILITY AND LOAN ENTITLEMENTS: VERIFYING INCOME

4.1 Auditor's 2003 Annual Report

A student's income (and applicable parental or spousal income) is key to determining loan eligibility and the amount of entitlement. Since 1996, the Ministry has attempted to verify incomes reported on OSAP applications by comparing them with income reported for tax purposes to the Canada Customs and Revenue Agency (CCRA) and its successor, the Canada Revenue Agency (CRA). Reported incomes are verified twice a year, usually in November and the following May. A discrepancy may result in the reassessment of a loan entitlement. A significantly under-reported income could lead to a student becoming ineligible for any further assistance.

The Ministry began summarizing the results of parental income verification in 2001. For those verified in November 2001 and 2002, the Ministry determined it had provided excessive funding or overpayments of \$8.6 million to 15,000 students.

Students are able to carry one overpayment regardless of the amount. It remains outstanding until students finish their schooling when it becomes part of their outstanding balance. Repayment begins six months after schooling is completed. Those who incur a second overpayment will only become eligible for further assistance when the amount is paid.

The Ministry does not routinely summarize the financial impact of spousal and student income verification. However, the November 2002 verification allowed for the determination that for approximately 4,300 students, verified income exceeded income reported on their application so significantly that they were permanently restricted from future OSAP funding.

The Ministry did not analyze the results of income verification to determine the risk of undetected abuse. It did not know whether there are students who have received loans for several years without having their or their supporting individual's income verified.

The 2003 audit analyzed the Ministry's parental income verification with the CCRA for the three years ending July 31, 2002. It determined that the Ministry was unable to verify parental income for more than 15,000 students, about 7% of dependent students who received OSL entitlements during that period. It 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.

The audit found that the Ministry verified parental income on a timely basis, but did not verify spousal income until November of the year following an application. This was due to the Ministry following the federal policy of using

spouses' current year income estimates rather than prior year actual income for determining entitlements.

Student income was not verified until November following the year in which the student was approved for OSAP. This meant students received three loan disbursements before their income was verified.

The Auditor recommended that the Ministry 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.¹³

4.2 Ministry's February 2006 Status Update

Since 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.

In September 2005, the Ministry and the CRA finalized and signed a memorandum of understanding (MOU) that will lead to more timely provision of income information for 2006/07. Previously, information was received in October of each year. Beginning in June 2006, the Ministry anticipates it will receive information from the CRA on a weekly basis. The earlier receipt will enable verification of parental income for dependent students prior to issuing student assistance funds in September 2006. This will reduce the number of overpayments and provide dependent students with correct assistance entitlements prior to the start of classes.

Changes in policy regarding income verification must be negotiated with the federal government. The issue of verifying spousal income at the same time as parental income was raised in February 2005. The matter continued to be negotiated in conjunction with the federal government's review of the methodology for needs assessment. A working group had been created with representatives from the federal government and the provinces to address this issue.

Joint federal/provincial/territorial (FPT) work on potential student assessment simplification initiatives was initiated in the summer of 2005. Ministry representatives on this group will continue to press for changes so that spousal and parental incomes are verified on a consistent basis. The co-chairs of the FPT working group anticipate that the group will recommence later in 2006, once the new federal government's student assistance priorities have been confirmed.¹⁴

4.3 Committee's April 2006 Hearings

In addition to the September 2005 MOU, the Ministry is developing a restriction policy that would take a measured approach to withholding eligibility and benefits from students who abuse the system.

Because of other priorities, such as implementing the 2005/06 federal enhancements and the need for provincial adjustments, and the change in the federal government, work on student assessment simplification initiatives has not advanced as significantly as hoped. The item was still on the agenda and under active consideration.¹⁵

5. DETERMINING ELIGIBILITY AND LOAN ENTITLEMENTS: CALCULATING ENTITLEMENTS WHERE APPLICANTS REPORT INCOME FROM SOCIAL ASSISTANCE

5.1 Auditor's 2003 Report

Students and their spouses are expected to work during the pre-study period. A minimum contribution is expected, except where social assistance is the main source of income. When a student indicates that social assistance was the main source of reported income before their studies, all reported income is excluded from the calculation and the minimum contribution is waived. This can result in the receipt of more OSAP assistance than a person is eligible for.

The audit found several cases in which a married student indicated their spouse's income exceeded \$20,000, the maximum Ontario Works benefit. Because the application indicated that Ontario Works was the spouse's main source of income, all other income was excluded from the minimum contribution calculation. No reasonableness checks were built into the system to recognize higher levels of income where social assistance had been received.

The Auditor recommended that the Ministry correct existing loan-application processing procedures so that other significant reported income sources are considered.¹⁶

5.2 Ministry's February 2006 Status Update

In its response to the 2003 audit, the Ministry indicated that it would insert additional edit checks when processing 2004/05 loan applications. During the 2005 follow-up, it was learned that due to the low number of occurrences where spousal income includes social assistance, individual occurrences were being monitored through manual verification checks.

Since March 2005, the Ministry has been examining ways of improving its data match agreement with the Ministry of Community and Social Services (MCSS) in order to identify individuals with social assistance income. It has designed an enhanced web interface that will greatly improve MCSS field workers' access to OSAP funding data. The application will be tested and implemented in the spring of 2006. It will increase the efficiency of ongoing batch-based data matches. It will also reduce occurrences of funds being issued to students who have not reported receiving other benefits and enable quicker re-assessment of over-awards.¹⁷

5.3 Committee's April 2006 Hearings

The new web interface was developed with input from the MCSS, as well as financial aid administrators at various post-secondary institutions. At the time of the hearings, it was being tested and was expected to be fully operational later in April 2006.¹⁸

6. REDUCING STUDENT LOAN OVERPAYMENTS

6.1 Auditor's 2003 Annual Report

Loan overpayments can result from changes other than those related to income. These include changes in academic status or study period, or a student's formal withdrawal. They should prompt a reassessment of entitlement. When an OSAP application is reassessed and it is determined that the student received more funding than they were eligible for, the student is considered to have received an overpayment. The reassessment is often made after all loan disbursements for the year have been made. From 1998/99 to 2001/02, the Ministry made OSL overpayments totalling \$165 million.

As long as the student remains in school, the Ministry pays the interest that accrues on the loan. By minimizing overpayments, the Ministry would reduce interest costs and also reduce the amount of loans at risk for future defaults.

Although the Ministry had not analyzed the main sources of overpayments, the Auditor identified several factors that increase the risk of overpayments and recommended that the Ministry:

- analyze loan overpayments yearly to determine the main reason 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 (e.g., from full to part-time 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.¹⁹

6.2 Ministry's February 2006 Status Update

At the time of the 2005 follow-up, the Ministry had reviewed the reasons for loan overpayments and had communicated them to the federal government. OSAP policy changes and negotiations with the federal government would be required to address them. The Ministry was proposing to investigate serious cases of income under-reporting and use the results to determine future policy work.

The federal government released a request for proposals (RFP) on February 24, 2006 for a single service provider that could also make monthly loan disbursements. Existing contracts had been extended for at least 18 months with the possibility of a further extension if the RFP process is delayed further. The priority for the remainder of 2005/06 and 2006/07 is planning for a transition to a new service provider. The earliest date for monthly disbursements would be 2007/08.

The monitoring of students' academic status was found to be one of the main deficiencies 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 (FAAs) and Ministry personnel, to identify best practices and disseminate them to all institutions.

In September 2004, the Ministry posted a reminder to FAAs that changes identified when enrolment is confirmed are to be processed on a timely basis to ensure that accounts are reassessed and updated appropriately. In November 2004, the Ministry posted an additional reminder that FAAs are required to monitor academic status for the purpose of releasing loan funding appropriately.

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 that exceeded the amounts students were entitled to. The Ministry was monitoring the federal initiative and would be assessing whether the changes are practical and reasonable to implement. As of February 28, 2006, federal officials were still developing options for the recovery of loans and/or grants issued in excess of proper entitlements. No federal regulatory amendments had been made.²⁰

6.3 Committee's April 2006 Hearings

The closing date for the service provider RFP was May 4, 2006. The time frame for changes to the disbursement schedule will be determined after the selection of the provider, but work was under way. The Ministry anticipated being able to make some progress on changes once the contract is awarded.²¹

The first payment under any monthly disbursement arrangement would continue to be 60%. The remaining 40%, which is now one payment at the half-way mark of an academic year, would be spread out over time.²² To make the exercise cost-effective, Ministry staff felt disbursement would have to be electronic. This would mean some short-term system development costs, but savings would include slightly lower interest costs, no overpayment in a withdrawal situation and reductions in collection activities.²³

The investigation of serious cases of under-reported income was described as a work in progress. The Ministry was also continuing the analytical work needed to determine the appropriate policy response.²⁴

Supplementary Information

During the hearings, Ministry staff were asked how much tuition private career colleges request “up front” from students. In a response received following the hearings, Members were told that these institutions are operated as commercial enterprises and have the discretion to set their own payment policies. OSAP does not release any funding for a period beyond one academic year. That funding is issued in two instalments: 60% at the start of the study period and 40% at the half-way point, regardless of the institution’s tuition payment policy.²⁵

Committee Recommendations

The Committee recommends that:

- 1. The Ministry of Training, Colleges and Universities provide the Committee with an update on the progress being made regarding changes to the loan disbursement schedule by the fall of 2007, as the earliest date for implementation is 2007/08.**
- 2. The Ministry of Training, Colleges and Universities report to the Committee on its development of a policy response to serious cases of under-reported income and on the early results from the implementation of its web interface with the Ministry of Community and Social Services.**

7. MANAGING THE RISK OF PROGRAM ABUSE

7.1 Auditor’s 2003 Annual Report

In response to the 1997 audit, the Ministry established specific performance requirements to better manage its relationships with schools. It also implemented OSAP compliance audits for all three types of schools (public colleges and universities, and many private career colleges) with the objective of providing independent assurance that financial aid officers (FAOs) are administering OSAP in accordance with policies and procedures.

Compliance audits for OSAP-eligible private career colleges had been completed annually since 1998. Results had improved each year. Special audits were conducted in the few cases where serious deficiencies were detected by previous compliance audits. Private career colleges were also required to publish graduation and employment rates each year for each of their OSAP-approved programs.

Less had been done to identify risks and incidences of abuse by students. The Ministry captured extensive information that could be used or analyzed to reduce the risk of abuse. It had not determined the types of analyses that would be most effective in identifying those who abuse OSAP. The audit undertook several of these analyzes, referring matters to the Ministry for follow-up or advising it of errors which were corrected.

The Ministry's 2001/02 business plan stated the intent to establish consistent baseline data on the incidence of fraud and inappropriate OSAP use. It also planned to establish a hotline for the reporting of suspected abuse. Neither plan had been implemented at the time of the audit.

Student Verification Officers from the OSAP Inspection and Compliance Unit examine student loan files to verify information, determine compliance with OSAP criteria and undertake initiatives to reduce abuse. A team was not maintained in 2002/03. Alberta has a similar group that verifies or audits loan accounts. Audit results are tracked by the frequency and amount of over-awards identified to detect chronic problem areas and demonstrate the cost-effectiveness of the audit process.

The Auditor recommended that the Ministry 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.²⁶

7.2 Ministry's February 2006 Status Update

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

The first selective audit project on changes in number of dependants from one year to the next resulted in 192 cases being identified for follow-up. This led to 44 students being restricted from further student assistance. In the fall of 2005, another selective audit identified 123 cases requiring follow-up. As of December 31, 2005, 30 of these 123 students had been restricted from further funding.

Selective audit processes were under development to verify data on students claiming funding for living away from home and students achieving satisfactory academic progress.²⁷

7.3 Committee's April 2006 Hearings

Regulations were amended to restrict future eligibility for students who under-report income. A restriction policy on future eligibility was being developed for 2006/07. Work is continuing to identify trends and then put the appropriate audit mechanisms in place.²⁸

The 2006 provincial budget announced that the Ministry would be developing a web portal with links to information about the costs and benefits of post-secondary education (e.g., financial aid packages, employment outcomes). The portal will also link to a student assistance calculator that will provide an estimate

of the amount students could expect to receive without requiring an OSAP application form to get that information.

Committee members were told that the portal would be introduced in the spring of 2007. Developmental discussions had started with the Council of Ontario Universities and would also include the Association of Colleges of Applied Arts and Technology of Ontario.

Ministry staff hoped that more financial information, and information about the range of programs available, would have some positive impact on system abuse. Reference was also made to the specific performance requirements that those institutions administering OSAP must meet, among them, due diligence.²⁹ Members were reminded that public institutions were subject to compliance audits every three years. (Those for 2004/05 were being completed at the time of the hearings.) Private career colleges are subject to annual compliance audits. The results of these audits are shared within the sector, but are not published.³⁰

Investigations and Charges

The Ministry investigated and placed restrictions for the 2004/05 academic year on 229 out of 200,000 student assistance applicants. Through the monitoring of academic progress, a program requirement, the Ministry found 3,702 instances of students not making satisfactory progress in the 2004/05 academic year.

No fraud charges have been laid against any of the 229 applicants referred to above. The Ministry does, however, work closely with the Ministry of Community and Social Services (MCSS) in identifying instances where individuals are receiving social assistance and student assistance at the same time. Any prosecutions are initiated by the MCSS.³¹

Supplementary Information

During the period January 1, 2000 to December 31, 2005, the City of Toronto's Social Services Department received 485 allegations that individuals were receiving social assistance and student assistance at the same time. More than half of the allegations, 259, were confirmed to be true and required further action. (Further action meant adjustments were made to clients' files, overpayments were established or cases were closed based on received information.) Thirty-six cases were referred to the police for prosecution. As of July 21, 2006, three had been withdrawn and the remainder were before the courts.³²

Committee Recommendation

The Committee recommends that:

- 3. The Ministry of Training, Colleges and Universities report to the Committee on the status and components of its restriction policy on future OSAP eligibility.**

8. REDUCING DEFAULTED STUDENT LOANS

8.1 Auditor's 2003 Annual Report

The Ministry reimburses financial institutions or the OSL Trust for any defaulted loans. Default claims are sent to private collection agencies which attempt to recover funds from borrowers. Approximately \$783 million had been paid to financial institutions to cover 143,300 defaulted loans since 1997/98. Although they had been declining, defaults were a major cost, representing 27% of OSAP expenditures in 2002/03.

The Ministry had taken several actions since the 1997 audit, including publishing annual default rates by school and program, and removing OSAP approval from schools that were not meeting performance requirements. These initiatives had contributed to a decline in the default rate: 23.5% for 1997 to 13.9% for 2002.

The Ministry's goal was to reduce the default rate to less than 10% by 2005. Other jurisdictions had introduced measures aimed at lowering default rates and the cost of defaulted loans. These included providing students with an annual statement showing how much they had borrowed to date, and identifying high-risk borrowers who would benefit from special counselling. The audit included a survey of FAOs to identify best practices. Among the suggestions made were mandatory entrance counselling on OSAP responsibilities, and better communication about debt responsibilities and available repayment options.

In January 1999 the Ministry introduced an income tax set-off (ITSO) program which enables the federal and provincial governments to withhold a defaulter's income tax refund and apply it against the amount owing on a defaulted loan. The Ministry may ask that an account be set up to ITSO after a collection agency has attempted to collect funds for a minimum of one year without success. The Canada Customs and Revenue Agency is required to notify people identified for ITSO.³³ Defaulters can arrange to start repaying the debt instead of having their refund withheld. The 2003 audit found that while the Ministry had been increasing the number of accounts established for ITSO, there were still at least 60,000 accounts that met the criteria for ITSO set-up.

The Auditor recommended that the Ministry 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.³⁴

8.2 Ministry's February 2006 Status Update

The Ontario Debt Reduction in Repayment Program was implemented in November 2004. It assists borrowers facing exceptionally long-term financial difficulty by forgiving a portion of their outstanding loan principal, lowering their monthly payments. It is available to those who have been out of school for at least five years and have exhausted all available periods of interest relief. Because of

the program's recent implementation, its success in reducing loan defaults was unknown.

Once a new service provider is in place, the Ministry will negotiate default management arrangements, through the federal government, for high-risk borrowers who warrant additional attention.

The Ministry has increased the number of accounts subject to the ITSO by 40,000 over the past two years, raising the total number of such accounts from 27,000 to 67,000. In December 2005 an additional 25,972 accounts were transferred. The Ministry is working closely with Ontario Shared Services (OSS), Ministry of Government Services, on its Revenue Management Improvement Project. OSS is managing a pilot project to improve the collection of OSL defaults.³⁵

8.3 Committee's April 2006 Hearings

Six months after completing studies (consolidation) individuals are expected to start repaying their loan. During that period, they receive written messages and/or phone calls from a service provider reminding them that their loan is coming up for repayment. Correspondence also indicates that if they are going to have difficulty with repaying, programs such as the interest relief program will keep their loan in interest-free status for up to five and a half years after graduation.

At the point of consolidation, if the service provider has not heard from the student, another call is made and then there are letters and/or phone calls 30, 60 and 90 days in arrears. If they are then unable to negotiate a repayment arrangement with the borrower, the account is turned over to the relevant level of government.³⁶

Ministry staff referred to Ontario as a leader in terms of default prevention in Canada. It has very rigorous credit screening of new applicants and public reporting of default rates by institution and program. Institutions with a published default rate greater than 25% are required to pay the cost of the default above 25%. There is a requirement for a default management plan and a variety of mechanisms for interest relief and debt reduction.

Members were told that the Ministry no longer had a goal of a 10% default rate in 2005. The current rate was 16.6% for all three types of institutions. The average in 2003 was 13.5%. Private career colleges have experienced a general decline while there has been some increase in universities and colleges. The increase in 2005 was said to have had quite a bit to do with the implementation of a new preauthorized payment program.

Specifically, in 2001/02, EDULINX, one of the two service providers, implemented a preauthorized payment program in which it would automatically deduct the first month's payment when a loan was to be consolidated. There were legal concerns with respect to the adequacy of the consent granted by the borrower for the payment. From 2001/02 to August 2003, preauthorized first monthly payments were not made. They were subsequently reinstated.

Members were reminded that the 2005 default rate is measured on loans that were last issued in 2002/03 and the default experience in July 2005 on those loans.³⁷

Income Tax Set-Off

The Ministry has increased the number of accounts sent for income tax set-off by 66,000 in the past three years.³⁸ Committee members were provided with the following data on the ITSO program.³⁹

	At March 31, 2003	At March 31, 2004	At March 31, 2005	At March 31, 2006
Accounts receivable	\$116,957,980	\$192,033,745	\$435,029,029	\$561,459,881
Total collected	\$3,127,631	\$4,239,041	\$6,945,011	\$16,062,058

At present, the Ministry does not have an active role in the collection of defaults. It verifies that the service provider has done due diligence in trying to enter into a repayment arrangement with a student. Then the accounts receivable is transferred to MGS, which then turns it over to a private collection agency.

Work is ongoing with the OSS which will do some initial collection activity on a pilot project basis prior to going to a private collection agency. Discussions are examining whether or not the Ministry should go directly to or parallel with the ITSO.⁴⁰

Supplementary Information

In response to a request made during the hearings, the Ministry provided information from MGS regarding debt recovery activities, collection costs and the piloting of in-house collections.

The Collections Management Unit of the OSS has been responsible for coordinating and providing debt collection services to ministries for non-tax programs. It contracts with private collection agencies for the provision of collection services. Agencies retain a 19% commission on debts recovered. In 2005/06, commissions cost the Crown \$6.8 million. MGS is working on an RFP for private collection services. The commission that agencies will receive is a matter that will be reviewed.

The new Centralized Collections Unit (CCU) will conduct first-level collections on defaulted accounts prior to being transferred to agencies. In the 2005/06 Results-Based Plan process, approximately \$2 million and 29 full-time equivalents were approved to establish the CCU. Staff were recruited from within the Financial Transactional Services Division. When fully operational, the CCU will undertake collections activities for client ministries on files in arrears from day 31 to day 90.

The CCU intends to facilitate the collection of outstanding receivables promptly and at a lower cost than that charged by agencies. It has been estimated that the

initiative will yield an additional \$15 million in 2006/07 and \$47 million on an annualized basis.

In February 2006, MGS reported to Treasury Board on its progress and the potential direction of program design. It will return to the Board with a business case for non-tax revenue and accounts receivable management as part of its 2007/08 Results-Based Plan.⁴¹

Private Career Colleges

Private career colleges have been associated with higher levels of default and, in some cases, significant risks to students, as well as concerns about unearned revenue. These issues have resulted in more attention being paid to this sector and the introduction of annual audits.⁴²

The average default rate for private career colleges went from 38.5% in 1997 to 22.2% in 2005.⁴³ Based on the 2005 default rates, there are 25 colleges that will have cost-sharing obligations for a total of \$200,000.⁴⁴

The Ministry has been working on new legislation for these institutions. It was in the process of completing regulations to create the training completion assistance fund which will provide students with better insurance against the possibility that an institution would go into bankruptcy or close.⁴⁵

Committee Recommendations

The Committee recommends that:

- 4. The Ministry of Training, Colleges and Universities report to the Committee on what if any success the Ontario Debt Reduction in Repayment program has had in reducing loan defaults.**
- 5. Given that loan default rates are rising again, the Ministry of Training, Colleges and Universities reinstate a target loan default rate, advise the Committee of the target and the rationale if it is different from the previous 10% target, and provide the Committee with an explanation of further actions it has taken or intends to take to achieve the target within a specific time period.**
- 6. The Ministry of Training, Colleges and Universities provide the Committee with a status report on the Centralized Collection Unit initiative, in conjunction with Ontario Shared Services.**
- 7. The Ministry of Training, Colleges and Universities report on the results of negotiations with the federal government aimed at reducing loan defaults and improving the collection of defaulted student loans, including greater use of the income tax set-off program.**

9. INFORMATION TECHNOLOGY

Ministry staff reported that a major OSAP IT renewal project was under way. Over the last 10 years, OSAP has grown significantly in terms of the funding it administers and transaction volumes. The system is currently supported by a series of custom-developed application systems which run on old technology. In the fall of 2002, the Ministry conducted a review and concluded that there were a number of risks associated with continued use of that system.

In June 2004, approval was given to proceed with the renewal project based on a submission supported by a strong business case. A budget was approved with a three-year timeline. An RFP was issued in the fall of 2005 to select a systems integrator and to provide common, off-the-shelf components as opposed to customized software packages. The procurement process was to end in the near future. A vendor had been selected. Ministry staff expected to have the new system functioning in March 2008.⁴⁶

ENDNOTES

- ¹ Ontario, Office of the Provincial Auditor, *2003 Annual Report* (Toronto: The Office, 2003), pp. 246-247.
- ² Ontario, Office of the Auditor General, *2005 Annual Report* (Toronto: The Office, 2005), p. 350.
- ³ The two service providers are EDULINX, which oversees community colleges and universities, and BPS, now called Resolve, which handles private institutions. See Ontario, Legislative Assembly, Standing Committee on Public Accounts, *Official Report of Debates: Hansard*, 2nd Sess., 38th Parl. (20 April 2006): P-141.
- ⁴ Office of the Provincial Auditor, *2003 Annual Report*, pp. 245-246.
- ⁵ Ontario, Ministry of Finance, *2005 Ontario Budget: Investing in People, Strengthening Our Economy – Budget Speech* (Toronto: The Ministry, 11 May 2005), pp. 3-4. Internet site at <http://www.fin.gov.on.ca/english/budget/bud05/pdf/statement.pdf> accessed 16 November 2006.
- ⁶ Ontario, Ministry of Training, Colleges and Universities, “Mary Anne Chambers, Minister of Training, Colleges and Universities, Statement to the Legislative Assembly: Reaching Higher - The McGuinty Government Plan for Postsecondary Education,” *News Release*, 12 May 2005. Internet site at <http://www.edu.gov.on.ca/eng/document/nr/05.05/st0512tcu.html> accessed 16 November 2006.
- ⁷ Standing Committee on Public Accounts, *Official Report of Debates*, p. P-127.
- ⁸ Ontario, Ministry of Finance, *2006 Ontario Budget: Building Opportunity – Budget Speech* (Toronto: The Ministry, 23 March 2006), p. 10. Internet site at <http://www.ontariobudget.ca/english/pdf/statement.pdf> accessed 16 November 2006.
- ⁹ Standing Committee on Public Accounts, *Official Report of Debates*, p. P-130.
- ¹⁰ Office of the Auditor General, *2005 Annual Report*, p. 350.
- ¹¹ Ontario, Ministry of Training, Colleges and Universities, “Presentation to Standing Committee on Public Accounts, April 20, 2006,” p. 3.
- ¹² Students have been able to apply on-line for several years and to check the status of their loans on-line since the fall of 2004. See Standing Committee on Public Accounts, *Official Report of Debates*, p. P-129.
- ¹³ Office of the Provincial Auditor, *2003 Annual Report*, pp. 250-252.
- ¹⁴ Ontario, Ministry of Training, Colleges and Universities, “2005 OAGO Annual Report, Section 4.10 – Ontario Student Assistance Program: Update for Members of the Standing Committee on Public Accounts – Implementation Status as at February 28, 2006.”
- ¹⁵ Standing Committee on Public Accounts, *Official Report of Debates*, p. P-128.
- ¹⁶ Office of the Provincial Auditor, *2003 Annual Report*, pp. 252-253.
- ¹⁷ Ministry of Training, Colleges and Universities, “2005 OAGO Annual Report.”
- ¹⁸ Standing Committee on Public Accounts, *Official Report of Debates*, p. P-128.
- ¹⁹ Office of the Provincial Auditor, *2003 Annual Report*, pp. 253-256.
- ²⁰ Ministry of Training, Colleges and Universities, “2005 OAGO Annual Report.”
- ²¹ Standing Committee on Public Accounts, *Official Report of Debates*, p. P-129.
- ²² *Ibid.*, p. P-131.
- ²³ *Ibid.*, p. P-133.
- ²⁴ *Ibid.*, p. P-129.
- ²⁵ Letter from Deputy Minister, Ontario Ministry of Training, Colleges and Universities, Toronto, to Clerk, Standing Committee on Public Accounts, 6 June 2006.
- ²⁶ Office of the Provincial Auditor, *2003 Annual Report*, pp. 258-260.
- ²⁷ Ministry of Training, Colleges and Universities, “2005 OAGO Annual Report.”
- ²⁸ Standing Committee on Public Accounts, *Official Report of Debates*, p. P-129.
- ²⁹ *Ibid.*, p. P-132.
- ³⁰ *Ibid.*, pp. P-134 – P-135.
- ³¹ *Ibid.*, *Official Report of Debates*, p. P-132.
- ³² Letter from Deputy Minister, Ontario Ministry of Training, Colleges and Universities, Toronto, to Clerk, Standing Committee on Public Accounts, 21 July 2006.
- ³³ The Canada Customs and Revenue Agency is now the Canada Revenue Agency.
- ³⁴ Office of the Provincial Auditor, *2003 Annual Report*, pp. 260-263.
- ³⁵ Ministry of Training, Colleges and Universities, “2005 OAGO Annual Report.”

³⁶ Standing Committee on Public Accounts, *Official Report of Debates*, p. P-141.

³⁷ *Ibid.*, pp. P-141 – P-142.

³⁸ *Ibid.*, pp. P-129 – P-130.

³⁹ Ministry of Training, Colleges and Universities, “Presentation to Standing Committee on Public Accounts, April 20, 2006,” p. 23.

⁴⁰ Standing Committee on Public Accounts, *Official Report of Debates*, pp. P-137 – P-138.

⁴¹ Letter from Deputy Minister, Ontario Ministry of Training, Colleges and Universities, Toronto, to Clerk, Standing Committee on Public Accounts, 21 August 2006.

⁴² Standing Committee on Public Accounts, *Official Report of Debates*, pp. P-134 and P-136.

⁴³ *Ibid.*, p. P-136.

⁴⁴ *Ibid.*, p. P-142.

⁴⁵ *Ibid.*, p. P-136.

⁴⁶ *Ibid.*, p. P-131.