



Unclassified

Internal Audit Services Branch

Audit of the Canada Student Loans Program Sections 34 and 33 of the *Financial Administration Act*

November 2014

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Executive Summary

The Canada Student Loans Program (CSLP) promotes accessibility to post-secondary education for students who demonstrate financial need. The CSLP reduces financial barriers through the provision of loans and grants, thereby ensuring that Canadians have an opportunity to gain the knowledge and skills required for successful participation in the economy and society.

The CSLP relies on several organizations both inside and outside Employment and Social Development Canada (ESDC) to verify eligibility prior to authorizing disbursements to students and their corresponding educational institutions (EIs). Participating provinces and territory have been delegated the responsibility to assess students' eligibility for federal loans and grants. Provinces and territory issue Master Student Financial Aid Agreements (MSFAAs) or Certificates of Eligibility as a result of this eligibility assessment. EIs confirm that students are enrolled in study. MSFAAs signed by students and EI confirmations of enrollment are forwarded to a private sector Service Provider. The Service Provider, which processes 97% of disbursements to students and EIs, confirms students' demographic information and the completeness of supporting documents before processing batch disbursement requisitions for Section 34 certification by the CSLP Controller Office (CO). The CSLP has an onsite Post Account Verification (PAV) team which performs quality assurance work on the Service Provider's processes. The CSLP CO engages an accounting firm to perform an annual attest audit and to provide an opinion as to the effectiveness of the Service Provider's operations.

In 2012–13, the CSLP provided 609,070 post-secondary full-time students from the ten participating jurisdictions with \$3.28 billion in loans and grants¹.

Audit Objective

The objective of the audit is to assess whether the Canada Students Loans and Grants payment practices related to certification under Section 34 and approval under Section 33 of the *Financial Administration Act* (FAA) are compliant with relevant legislation.

¹ 2012–13 Departmental Performance Report

Summary of Key Findings

The control framework for the authorization and issuance of disbursements processed by the Service Provider was found to be operating effectively. However, the audit identified certain areas where controls could be improved:

- An opportunity exists for the Chief Financial Officer Branch (CFOB) to periodically assess the control framework supporting the authorization and issuance of disbursements to ensure it continues to operate as intended.
- The processes for authorizing and issuing manual max grant edit disbursements can be streamlined.
- Controls around the account verification process for the authorization of manually issued Alberta grants can be improved.
- Existing data can be better used to assess provincial controls over students' eligibility.

Audit Conclusion

The audit concluded that the Canada Students Loans and Grants payment practices related to certification under Section 34 and approval under Section 33 of the FAA are compliant with relevant legislation. The control framework for managing loan and grant disbursement processes is in place. Opportunities to assess the mechanisms supporting Section 33 to ensure they continue to function as intended and to follow up on inconsistencies noted in the needs assessment data were identified in the audit.

Recommendations

- The Chief Financial Officer (CFO), in collaboration with the Assistant Deputy Minister (ADM) Learning Branch (LB), should assess the mechanisms used to demonstrate that the control framework and quality assurance activities supporting Section 33 authorization continue to function as intended.
- The ADM LB should strengthen its practices to follow-up on issues found in the needs assessment data when inconsistencies are detected.

I.0 Background

I.1 Context

CSLP promotes accessibility to post-secondary education for students with a demonstrated financial need by lowering financial barriers through the provision of loans and grants in most provinces and territories. In 2012–13, the number and percentage of Canadians pursuing post-secondary education who were assisted by the CSLP continued to increase. In this period, 609,080 post-secondary full-time students in the participating provinces and territory benefited from federal student loans, grants or in-study interest subsidies compared to 581,280 students in 2011–12². Other trends include:

- The issuance of \$2.6 billion in loans to 478,630 students in 2012–13 compared to \$2.4 billion issued to 452,180 students in 2011–12.
- The issuance of \$680 million in grants to 357,048 students in 2012–13 compared to \$649 million issued to 333,200 students in 2011–12.

Section 34 of the FAA pertains to account verification and certification prior to the authorization of payments from the Consolidated Revenue Fund. Compliance with Section 34 requires the establishment of account verification processes and controls that maintain sound stewardship of financial resources. Account verification provides a means to ensure that the payee is eligible for or entitled to the payment, the contract or agreement terms and conditions have been met, the transaction is accurate, and all legislative authorities have been complied with.

In accordance with Section 33 of the FAA, no requisition shall be made for a payment that:

- Is not a lawful charge against an appropriation.
- Will result in expenditures exceeding an appropriation.
- Will result in an insufficient balance in an appropriation to meet the commitments charged against it.

The Treasury Board (TB) Directive on Account Verification outlines the requirements to ensure that accounts for payment are verified in a cost-effective and efficient manner while maintaining the required level of control to ensure prudent management of financial resources.

I.2 Audit Objective

The objective of the audit was to assess whether the Canada Students Loans and Grants payment practices related to certification under Section 34 and approval under Section 33 of the FAA are compliant with relevant legislation.

² 2012–13 Departmental Performance Report

I.3 Scope

An audit of the management control framework of CSLP was completed in 2013. The audit concluded that the CSLP established a management control framework that is sufficient to manage the loan portfolio and oversight for the management of the loan portfolio is in place.

The current audit focused on the financial management of the CSLP, specifically, the payment certification practices under Section 34 and approval practices under Section 33. The scope considers disbursements for loans and grants that were paid to students in the ten participating jurisdictions during the current loan year which began in August 2013.

I.4 Methodology

This audit used a number of methodologies which included:

- Documentation review and data analysis; and
- Walkthrough and process observations to identify and assess the design effectiveness, and operating effectiveness of manual and automated key controls.

Representatives from LB, CFOB, the Service Provider, and external auditors conducting the attest audit of the Service Provider were interviewed. Travel to the Service Provider in Mississauga took place in February and May 2014, while travel to the CFOB National Payment Processing Centre in Montreal to observe the new SAP processes took place in June 2014.

Two samples of loan and grant disbursement files processed between August 2013 and January 2014 were selected for testing compliance of Section 34 and Section 33 practices. File review results are derived from statistically valid random samples of:

- 184 disbursements processed by the Service Provider; and
- 164 disbursements manually processed by the CSLP CO.

Each sample provides for a 95% confidence level, a presumed error rate of 2% and a precision interval of $\pm 2\%$.

The audit team performed sufficient testing of disbursement transactions, walkthroughs and process observations to satisfy itself that the external auditors' findings were reasonable.

2.0 Audit Findings

2.1 The control framework for the authorization of disbursements processed by the Service Provider is operating effectively

The CSLP relies on several organizations both inside and outside ESDC to verify eligibility prior to authorizing disbursements to students and their corresponding EIs. Participating provinces and territory assess students' eligibility for federal loans and grants and the amounts to which they are entitled. EIs confirm that students are enrolled in study. The Service Provider, which processes 97% of disbursements to students and EIs (3% are processed manually by the CSLP CO), confirms students' demographic information and the completeness of supporting documents before processing batch disbursement requisitions for Section 34 certification by the CSLP CO. The CSLP has an onsite PAV team which performs quality assurance work on the Service Provider's processes by continuously testing samples of transactions, including disbursements. The CSLP CO engages an accounting firm to perform an annual attest audit and to provide an opinion as to the effectiveness of the Service Provider's operations.

Based on the results of the audit work, the auditors concluded that Section 34 certification practices are compliant with relevant legislation. The sections below describe in more detail our assessment of the control framework elements around the authorization of disbursements.

Eligibility Assessment and Confirmation of Enrollment

The provinces and territory assess students' eligibility for assistance through their applications and determine the loans and grants amounts. The provinces and territory send completed needs assessments to the Service Provider via electronic batch files. EIs send student enrollment activity and confirmation information to the Service Provider via a web portal.

The CSLP places full reliance on the provinces and territory to have properly assessed students' eligibility for federal assistance according to federal criteria. The CSLP has compiled an inventory of measures the provinces and territory have reported they undertake to assess students' eligibility for assistance. The audit team's review of this inventory found the controls are sufficient to meet expectations from the TB Directive on Account Verification regarding payee eligibility. The CSLP liaises regularly with the provinces and territory to understand the evolving measures they undertake. The audit team noted that the CSLP has not concluded on the adequacy of each jurisdiction's inventory of integrity measures. A similar observation was raised in the 2007 Report of the Auditor General of Canada on Federal Loans and Grants for Post-Secondary Education. The Auditor General noted the "information on controls for eligibility and needs assessments is not well documented"³ and recommended that the Department "documents its conclusions on the adequacy of controls and any related action taken"⁴. The Department agreed with the recommendation.

³ 2007 Report of the Auditor General of Canada, Chapter 2, Federal Loans and Grants for Post-Secondary Education, p. 11

⁴ Ibid, p. 12

Internal Audit strongly encourages management to have a documented conclusion on the adequacy of each jurisdiction's integrity measures as they evolve.

In December, after the end of the year, the provinces and territory provide applicant-level needs assessment results (NARs) data to the CSLP to provide assurance that assessment activities were operating as intended. The audit team found that improvements are needed to deal with issues associated with the data, which are discussed in Section 2.3 of the report.

Account Verification Activities

The CSLP maintains a contract with a third party, private sector, Service Provider which acts as the National Student Loans Service Centre on behalf of ESDC and the provinces and territory. The Service Provider's activities include maintaining borrower information, processing loan repayments and the preparation of tax slip information, in addition to processing loan and grant disbursements. As part of its disbursement activities, it performs account verification by confirming the students' demographic information and completeness of supporting documents. This includes validating documents and information which have been provided by students and by the provinces and territory to ensure:

- An appropriate agreement is in place between the student and the CSLP;
- The student has been visually authenticated; and
- Address and direct deposit information is kept up to date.

The audit team conducted onsite walkthroughs of the Service Provider's processes and reviewed a statistically valid sample of 184 loan and grant disbursements processed by the Service Provider between August 2013 and January 2014. Our review found no errors of significance, and showed that most disbursements were processed quickly (i.e. within the same day of the Service Provider being advised that the student's enrollment has been confirmed). The results of our audit tests indicate that the Service Provider's controls around the processing of loan and grant disbursements are well established and effectively executed.

The CSLP has also developed a Disbursement Exception Process to ensure disbursements are processed in accordance with relevant acts and regulations. System edits have been embedded in the Service Provider's loan and grant disbursement processing system to minimize errors prior to CSLP CO Section 34 certification. These system controls were tested by the external auditor as part of the CSLP annual attest audit which concluded the controls worked as intended.

Annual Attest Audit

The annual attest audit performed by an independent accounting firm is intended to provide reasonable assurance that the Service Provider's operations are suitably designed and operating effectively to achieve the expected control objectives. The loan and grant disbursement processes have been scoped as part of recent audits and there have been no significant findings. The attest audit is focused on the Service Provider's processes which cover the five integrated provinces (see

Appendix B). The Service Provider's processes for the non-integrated provinces and territory are very similar. The internal audit team performed sufficient testing of disbursement transactions, walkthroughs and process observations to satisfy itself that the external auditors' findings were reasonable.

Quality Assurance

The CSLP established a PAV function to test and monitor processes with significant volumes of transactions such as disbursements, receipts, deposits and consolidations performed by the Service Provider. The audit observed that the PAV methodology for the audit period addressed Section 34 expectations outlined in the TB Directive on Account Verification.

One of the main functions of the PAV onsite testing is to detect errors and communicate them to the CSLP and the Service Provider. The PAV team meets weekly with the Service Provider to discuss the detected anomalies and to obtain timely corrective actions where necessary. The Service Provider's processes have been modified in light of these findings.

The PAV methodology involves selecting and testing 60 disbursements a month for contract performance compliance and errors. The error rates detected over the last three years have been very low. The audit team understands that the CSLP is updating its PAV testing methodology to focus on the Service Provider's processes which may be considered to be of higher risk. The auditors were informed that the revised methodology may not include testing of disbursement transactions in the future. It is the audit team's opinion that a minimal amount of testing of disbursements should continue to occur each year to ensure controls continue to operate as intended.

Certification of Batch Files of Disbursements

CSLP CO authorizes, under Section 34, daily batches of payments to students and their EIs, which have been processed by the Service Provider. The CO relies on the control framework described above when authorizing these batches.

A CSLP CO financial officer validates the daily batch totals for the loan and grant disbursement requisitions processed by the Service Provider and certifies the batches for payment under Section 34 in the Canada Student Loans System (CSLS). The CO financial officer, who has Section 34 authority, provides an email confirming these batch totals to CFOB in order for the batch to receive Section 33 approval. There is no wet Section 34 signature for this process.

Our testing of 184 randomly selected disbursements, as well as their corresponding 72 batches certified by CSLP Section 34, occurring between August 2013 and January 2014, did not identify any significant errors. The audit team concludes that the CSLP's control framework for authorizing payments under Section 34 is compliant with relevant legislation.

2.2 There is a need to assess the evolving control framework supporting the issuance of disbursements processed by the Service Provider

The following activities supporting Section 33 responsibilities have to be performed to ensure loan and grant disbursements are properly issued:

- Payments have been properly authorized; and
- Processes have been established to enable reporting on the overall adequacy and reliability of the payment authorization process, which include quality assurance activities.

CFOB financial officers, upon receipt of batch requisitions from CSLP which have been certified under Section 34, transmit CSLP control files to the Receiver General containing the number of payments and total amount of disbursements to be paid. These control files are compared with the contents of CSLP batch files sent to the Receiver General from the Service Provider via the Innovation, Information and Technology Branch (IITB) which contain detailed payee and financial institution information. The audit team reviewed 30 regular disbursement batches issued by CFOB under Section 33 between August 2013 and January 2014. All 30 sample batches were approved by individuals with appropriate delegated authority and supported by sufficient requisition documents.

CFOB relies on the CSLP control framework, from the provincial assessments to the testing of the PAV team and annual attest audits, when it approves batch files for payment under Section 33. The audit team noted that CFOB does not sample and does not review individual disbursements, although the TB Directive on Account Verification stipulates that sufficient sampling needs to take place to demonstrate the overall adequacy and reliability of the account verification process.

Based on the results of the audit work, the auditors concluded that Section 33 authorization practices are compliant with relevant legislation. However, the auditors would expect that CFOB assess, on a periodic basis, CSLP's account verification and quality assurance activities in order to ensure the control framework around the authorization and issuance of disbursements continue to function as intended.

Recommendation

The CFO, in collaboration with the ADM LB, should assess the mechanisms used to demonstrate that the control framework and quality assurance activities supporting Section 33 authorization continue to function as intended.

Management Response

CFOB agrees with the recommendation. The Branch has concluded an agreement with an established accounting firm to assist ESDC with the development of a framework to address the Department's approach for section 33 of the FAA by December 30, 2014. The framework will

describe the process in place for providing payment authority pursuant to Section 33 of the FAA and ensuring compliance with the Directive on Account Verification.

2.3 The control framework for the authorization and issuance of manual disbursements can be streamlined

Manual Max Grant Edit Disbursements

Regulations limit the amount students can receive in a given time period. A system limitation in CSLS causes information pertaining to certain transactions to be misinterpreted which prevents the Service Provider from processing full grant amounts for some students. The incremental amount that students are entitled to needs to be processed by the CSLP CO. The processing of the “max grant edit” disbursements by the CSLP CO was originally intended to be a temporary solution when the Canada Student Grants Program was implemented in 2008. CSLP CO processed 1,278 of these grant payments worth \$900,000 between August 2013 and January 2014 compared to the \$571M processed through the Service Provider over the same time period.

The student information associated with these manual grants, as with all regularly processed disbursements, undergoes thorough verification by the Service Provider which has low rates of error. On a weekly basis, the Service Provider provides to the CSLP, a spreadsheet with the payment information associated with these grants, including student address and direct deposit information.

Upon receipt of this spreadsheet, the CSLP revalidates the students’ postal code, and recaptures the information from the spreadsheet into an ESDC requisition form for each individual grant payment. These requisition forms are verified by three individuals prior to being individually authorized under Section 34 and approved by CFOB under Section 33. Since April 2014, there are new processes in place which mean this information is being retyped into SAP by the CFOB prior to each payment being individually certified under Section 33. Even though the Service Provider has recently validated student direct deposit information, ESDC will mail max grant edit cheques to students. Given the reliability of the Service Provider’s processes and that the financial coding is the same for each grant, the audit team would consider the authorization of the information in the Service Provider spreadsheets to be sufficient for Section 34.

The audit team reviewed a random sample of 164 grants processed by the CSLP CO within the audit period. The audit team found no significant errors and concluded that the manual payment practices associated with Sections 34 and 33 of the FAA are compliant with relevant legislation. However, our sample found that the processing times averaged 40 days between the Service Provider advising the CSLP of the rejected grants and ESDC issuing the grants.

The audit team understands the CSLP is currently working with IITB and the Service Provider for a permanent solution to process these maximum grant disbursements through the automated regular disbursement process. Internal Audit encourages program management to pursue their work until a solution is fully implemented.

Manually issued Alberta Grants

The Service Provider processes loan and grant disbursements for the ten participating provinces and territory, except for Alberta grant disbursements. The government of Alberta processes federal grants directly to their students and their corresponding EIs due to limitations in its systems. ESDC is required to reimburse Alberta for this activity. Alberta has invoiced \$64.7M to ESDC for 56,693 grants between July 2013 and March 2014. This activity completely bypasses the Service Provider's disbursement processing systems. The CSLP CO's account verification efforts have focused on reconciling student grant data against the amounts invoiced. The audit team expected that the CSLP CO would have reconciled the invoiced amounts against the official student level disbursement data contained in CSLS. As a result, differences between the invoiced activity and the Alberta information in CSLS of approximately \$3M from 2010 to June 2014 remain unreconciled.

CFOB's Internal Control team has recently reviewed this situation and CSLP CO has drafted an action plan that, when implemented, will address this issue until Alberta grants can be processed through the Service Provider. These actions will include providing explanations of the discrepancies found in the reconciliations between Alberta CSLS information and the invoiced information.

2.4 Existing data can be better used to assess provincial controls over students' eligibility

As discussed in Section 2.1 of the report, the provinces and territory are responsible for the assessment of students' needs information to determine the amounts of federal loans and grants to which students are entitled. ESDC pays the provinces and territory administration fees for each student that they assess on its behalf.

A 2007 Office of the Auditor General audit on federal student loans and grants contained findings about ESDC's lack of assurance regarding provincial and territorial processes for assessing whether federal student loan and grant criteria were being met. As a result of its action plan from this audit, the CSLP now receives annual NARs data extracts from the provinces and territory which contain 114 fields of data for each student applicant. The CSLP has implemented a payment structure to calculate administrative and incentive fees paid to each jurisdiction based on completeness, validity, and consistency of the NARs data that it receives in December following the end of the loan year. The CSLP validates the data contained in these fields against "business rules" to assess the extent to which the data is reliable and has been properly used to assess student need. Where more than 50% of any of these fields have been assessed as being 95% accurate or higher, provinces and territory are eligible to receive the maximum incentive payment for having provided data of better quality.

The audit team considers the CSLP's assessment of NARs data to be a good practice. The CSLP CO receives copies of the annual NARs data evaluation reports which allow it to feel comfortable that the provinces and territory have properly assessed students' eligibility. In 2009, the CSLP brought to the attention of the provinces and territory some specific findings from its analysis of NARs data.

The audit team understands that recently, the NARs data has been used mainly for analytical and research purposes. Follow-up with the provinces and territory about NARs data findings has been limited to situations where more than 50% of the data fields have not met the 95% standard.

The audit team reviewed the CSLP's assessment of the 2012-13 NARs data. The audit team found that across the provinces and territory, 77% of the fields had met the 95% standard. Most of the fields that met the standard were considered 100% correct. Students from low-income families and who have dependants may be eligible for federal grants. However, across multiple provinces, the data field for assessing the federal grants for dependants had an accuracy rate of less than 62%. On the surface, it appears there may be integrity issues with the data reported in this field. At the time of the audit, the CSLP informed the audit team that they had not yet followed up with the provinces to learn about this situation.

Recommendation

The ADM LB should strengthen its practices to follow-up on issues found in the needs assessment data when inconsistencies are detected.

Management Response

The ADM LB will strengthen its practice of following up on issues found in the needs assessment data when inconsistencies are detected. CSLP will raise the issue at the Intergovernmental Consultative Committee on Student Financial Assistance meeting, and engage jurisdictions on a plan to more rigorously follow-up on inconsistencies found in needs assessment data by December 31, 2015.

3.0 Conclusion

The audit concluded that the Canada Students Loans and Grants payment practices related to certification under Section 34 and approval under Section 33 of the FAA are compliant with relevant legislation. The control framework for managing loan and grant disbursement processes is in place. Opportunities to assess the mechanisms supporting Section 33 to ensure they continue to function as intended and to follow up on inconsistencies noted in the needs assessment data were identified in the audit.

4.0 Statement of Assurance

In our professional judgement, sufficient and appropriate audit procedures were performed and evidence gathered to support the accuracy of the conclusions reached and contained in this report. The conclusions were based on observations and analyses at the time of our audit. The conclusions are applicable only for the assessment of the payment practices supporting the Canada Students Loans and Grants payment practices under Sections 34 and 33 of the FAA. The evidence was gathered in accordance with the *Internal Auditing Standards for the Government of Canada* and the *International Standards for the Professional Practice of Internal Auditing*.

Appendix A: Audit Criteria Assessment

Audit Criteria	Rating Disbursements processed by the Service Provider	Rating Disbursements processed outside the Service Provider
It is expected that:		
A defined and communicated governance framework is in place to support the requirements of Sections 34 and 33 of the FAA and the Directive on Account Verification		
Roles, responsibilities and accountabilities are established and communicated with key stakeholders.	●	●
Functional advice, guidance and support are provided in a timely manner.	●	◐
A financial delegation authority instrument is in place and updated as required.	●	●
Certification under Section 34 and payment approval under Section 33 is supported by appropriate manual and/or automated application controls.	●	◐
Processes are in place to support the requirements of Section 34 of the FAA and the Directive on Account Verification		
Controls are in place to comply with the requirements of Section 34.	●	●
An account verification process including a risk management framework is in place, documented, approved, and communicated.	●	◐
Segregation of duties are appropriate and in accordance with the Directive on Delegation of Financial Authorities for Disbursements.	●	●
Evidence of account verification and certification is demonstrated.	●	●
Processes are in place to support the requirements of Section 33 of the FAA and the Directive on Account Verification		
Risk-based sampling practices are established and used to demonstrate the overall adequacy and reliability of the account verification process.	◐	◐
Quality assurance processes are in place and support the risk management framework.	●	◐
Reporting and feedback mechanisms are in place to address irregularities and facilitate appropriate and timely corrective action.	◐	◐

⊕ = Best practice

● = Sufficiently controlled, low risk exposure

◐ = Controlled, but should be strengthened, medium risk exposure

○ = Missing key controls, high risk exposure

Appendix B: Provincial and Territorial Audit Scope

Participating and Non-Participating Provinces and Territories	CSLP has Integrated ⁵ Agreement with Province or Territory	Provinces and Territories	Audit Scope In/Out
Participating Provinces and Territory ⁶	YES	Ontario	IN
		Saskatchewan	
		Newfoundland and Labrador	
		New Brunswick	
		British Columbia	
	NO	Alberta	
		Manitoba	
		Nova Scotia	
		Prince Edward Island	
		Yukon	
Non-Participating Province and Territories ⁷	Quebec	OUT	
	Nunavut		
	Northwest Territories		

⁵ Students in integrated provinces have a single loan account for both the federal and Provincial/Territorial portions.

⁶ The provinces and territory choose to deliver financial assistance to students within the framework of the CSLP.

⁷ The province and territories operate their own student financial assistance programs and receive alternative payments from the Government of Canada.

Appendix C: Glossary

ADM	Assistant Deputy Minister
CFO	Chief Financial Officer
CFOB	Chief Financial Officer Branch
CO	Controller Office
CSLP	Canada Student Loans Program
CSSL	Canada Student Loans System
EI	Educational Institution
ESDC	Employment and Social Development Canada
FAA	<i>Financial Administration Act</i>
IITB	Innovation, Information and Technology Branch
LB	Learning Branch
MSFAA	Master Student Financial Aid Agreement
NAR	Needs Assessment Results
PAV	Post Account Verification
TB	Treasury Board