



Spring 2020

Reports of the Auditor General of Canada to the Parliament of Canada

Independent Auditor's Report

REPORT 2

Student Financial Assistance



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada



Spring 2020

Reports of the Auditor General of Canada to the Parliament of Canada

Independent Auditor's Report

REPORT 2

Student Financial Assistance



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

Performance audit reports

This report presents the results of a performance audit conducted by the Office of the Auditor General of Canada (OAG) under the authority of the *Auditor General Act*.

A performance audit is an independent, objective, and systematic assessment of how well government is managing its activities, responsibilities, and resources. Audit topics are selected on the basis of their significance. While the OAG may comment on policy implementation in a performance audit, it does not comment on the merits of a policy.

Performance audits are planned, performed, and reported in accordance with professional auditing standards and OAG policies. They are conducted by qualified auditors who

- establish audit objectives and criteria for the assessment of performance
- gather the evidence necessary to assess performance against the criteria
- report both positive and negative findings
- conclude against the established audit objectives
- make recommendations for improvement when there are significant differences between criteria and assessed performance

Performance audits contribute to a public service that is ethical and effective and a government that is accountable to Parliament and Canadians.

The report is available on our website at www.oag-bvg.gc.ca.

Ce document est également publié en français.

© Her Majesty the Queen in Right of Canada, as represented by the Auditor General of Canada, 2020.

Cat. No. FA1-27/2020-1-2E-PDF

ISBN 978-0-660-34109-5

ISSN 2561-3421 (Print)

ISSN 2561-343X (Online)

Table of Contents

Introduction	1
Background	1
Focus of the audit	2
Findings, Recommendations, and Responses	3
Financial assistance for students	3
The management of some aspects of student financial assistance needed improvement	5
Non-repayment of student loans	5
Improving information submitted to Parliament	7
Limited tools for the Canada Revenue Agency to recover student loans	10
Lack of financial education tools for students	11
Problems related to contracts with the private sector service provider	12
Evaluation of student financial assistance programs not comprehensive	13
Conclusion	15
About the Audit	16
List of Recommendations	19

Introduction

Background

Student financial assistance

2.1 Today's labour market needs individuals with specialized skills and wide-ranging knowledge. The Government of Canada regards investment in education and training as essential, so that Canadians can acquire the skills required for them to succeed and for the country's economy to grow. For this reason, the federal government manages or contributes to a number of programs providing financial assistance to post-secondary students, including the Canada Student Loans Program and the Canada Education Savings Program.

2.2 The Canada Student Loans Program, established in 1964, is intended to help students from low- and middle-income families afford post-secondary education. The program provides eligible students with non-repayable grants and repayable loans. Since 2000, the program has offered loans directly to eligible students. For the 2016–17 loan year (running from August 1 to July 31), the government provided **direct loans** to nearly half a million students, with a total value of \$2.6 billion. During that year, around 39% of post-secondary students received loans under the Canada Student Loans Program.

2.3 Student loan recipients who have declared that they are in financial difficulty can apply to the Repayment Assistance Plan. The plan was established by the Government of Canada in 2009 in the *Canada Student Financial Assistance Regulations*, according to section 15 of the *Canada Student Financial Assistance Act*. The plan reduces the amount of recipients' monthly payments so that they can better manage their student debt. Under the plan, the federal government, on behalf of the borrower, covers at least part of the interest on the student loan, and in some cases, part of the principal as well.

Roles and responsibilities

2.4 **Employment and Social Development Canada.** This department is responsible for managing the Canada Student Loans Program, as well as for analyzing program features with a view to promoting repayment of loans and ensuring that the program is managed efficiently. The department designated a private sector service provider for delivering student loan services. The service provider manages the National Student Loans Service Centre, which administers student loan accounts from loan disbursement to repayment. The department is also responsible for

Direct loan—Loan provided by the federal government without involving a financial institution.

encouraging Canadians to save for post-secondary education and for raising awareness of the Canada Education Savings Program, which encourages families to save for their children's post-secondary education.

2.5 **Canada Revenue Agency.** In 2005, the federal government mandated the Canada Revenue Agency to recover student loans in **default** for Employment and Social Development Canada. When the agency deems that a student loan is unrecoverable, it recommends that the department write it off.

2.6 **Financial Consumer Agency of Canada.** Among its responsibilities, this agency has a mandate to collaborate with stakeholders (such as financial assistance administrators in post-secondary institutions) and support initiatives to strengthen the financial literacy of Canadians, including students.

Focus of the audit

2.7 This audit focused on whether Employment and Social Development Canada and the Canada Revenue Agency efficiently managed financial assistance to post-secondary students and the risks to the public purse, while helping students attend colleges and universities. The audit also focused on whether the Financial Consumer Agency of Canada collaborated with stakeholders to strengthen students' financial literacy.

2.8 This audit is important because the value of student loans that are not repaid to the federal government is significant, and according to the Chief Actuary of Canada, the value is expected to increase. Non-repayment of loans is a cost and could be a burden for taxpayers.

2.9 More details about the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this report (see pages 16–18).

Default—A term describing a loan that has been in arrears for at least 270 days or a loan for which the borrower refuses to make any payment.

Findings, Recommendations, and Responses

Overall message



2.10 Overall, we found that Employment and Social Development Canada needed to improve its management of some aspects of student financial assistance. In the 2018–19 fiscal year, the amount associated with non-repayment of student loans reached half a billion dollars. In addition, Employment and Social Development Canada needed to perform a more comprehensive evaluation of student financial assistance, to capture its full impact and the interactions among its programs.

2.11 The department did not take enough steps to ensure that borrowers understood their financial obligations. Also, the department did not properly verify borrowers' eligibility for the Repayment Assistance Plan.

2.12 Although the Canada Revenue Agency was responsible for recovering student loans in default, we found that the agency did not have all the tools to perform this task effectively. As of 31 March 2019, the value of outstanding student loans in default amounted to \$2.4 billion.

Financial assistance for students

Context

2.13 The federal government offers 3 forms of financial assistance to students:

- direct loans under the Canada Student Loans Program
- financial incentives for families to save for post-secondary education under the Canada Education Savings Program
- grants under the Canada Student Loans Program, which we did not examine

2.14 The Canada Student Loans Program provides loans to post-secondary students based on a number of criteria, including income and family composition. Borrowers must begin repaying the principal and interest 6 months after the end of their full-time studies.

2.15 The Canada Student Loans Program also offers the Repayment Assistance Plan. Under this plan, for a renewable 6-month period, the government covers payments of interest and, in some cases, principal for eligible borrowers. To participate in the plan, borrowers who claim they cannot meet the full monthly payment on their student loans must declare their income and family composition. With this information, the department calculates a reduced monthly payment.

2.16 In Stage 1 of the Repayment Assistance Plan, the government covers only interest that is not included in the reduced monthly payment. Stage 2 of the plan starts either after a borrower has participated in the plan for 60 months or the borrower has been out of school for 10 years, whichever comes first. In Stage 2, the government also covers principal not included in the reduced monthly payment.

2.17 Another form of financial assistance for students is the Canada Education Savings Program. It was established in 1998 to encourage families to save for their children's post-secondary education. This program includes the Canada Learning Bond and the Canada Education Savings Grant (Exhibit 2.1). The government invested \$1.1 billion in the Canada Education Savings Program in 2018.

Exhibit 2.1 Eligibility for and government contributions to the Canada Education Savings Program

Feature		Canada Learning Bond	Canada Education Savings Grant	
			Basic	Additional
Eligibility—child’s age		0–15 years	0–17 years	0–17 years
Eligibility—family income*	Thresholds—1 to 3 children	Family income less than \$47,631	No income requirement	Low income: Less than \$47,631 Middle income: \$47,631 to \$95,259
	Thresholds—4 or more children	The threshold of \$47,631 increases by \$6,100 for each additional child	No income requirement	The number of children does not affect the threshold
Amount contributed by the federal government		\$500 for the first year of eligibility; thereafter, \$100 a year	20% of the first \$2,500 contributed to the child’s Registered Education Savings Plan	20% (low income) or 10% (middle income) of the first \$500 contributed
Maximum yearly amount of government contribution		Fixed amount (\$500 for the first year or \$100 for subsequent years)	\$500	\$100 (low income); \$50 (middle income)
Maximum lifetime amount of government contribution		\$2,000	\$7,200	
Number of beneficiaries (2018)		690,559	2.92 million	
Amount contributed by the government (2018)		\$172 million	\$961 million	
* Family-income thresholds are indexed annually. Source: Employment and Social Development Canada				

The management of some aspects of student financial assistance needed improvement

What we found

2.18 We found that Employment and Social Development Canada needed to improve its management of some aspects of the financial assistance for post-secondary students and the risks to the public purse. Because applicants' eligibility for the Repayment Assistance Plan was not verified properly, there was a risk that some ineligible students participated in the plan. In addition, the Canada Revenue Agency did not have the necessary tools to maximize recovery of student loans in default. In the 2018–19 fiscal year, the amount associated with non-repayment of student loans reached half a billion dollars. Finally, the department had not yet made financial literacy tools available to students, as suggested by the Financial Consumer Agency of Canada.

2.19 The analysis supporting this finding discusses the following topics:

- Non-repayment of student loans
- Improving information submitted to Parliament
- Limited tools for the Canada Revenue Agency to recover student loans
- Lack of financial education tools for students
- Problems related to contracts with the private sector service provider
- Evaluation of student financial assistance programs not comprehensive

Why this finding matters

2.20 This finding matters because the inefficient management of student financial assistance programs may have a heavy impact on the public purse.

Recommendations

2.21 Our recommendations in this area of examination appear at paragraphs 2.26, 2.32, 2.35, 2.40, and 2.48.

Analysis to support this finding

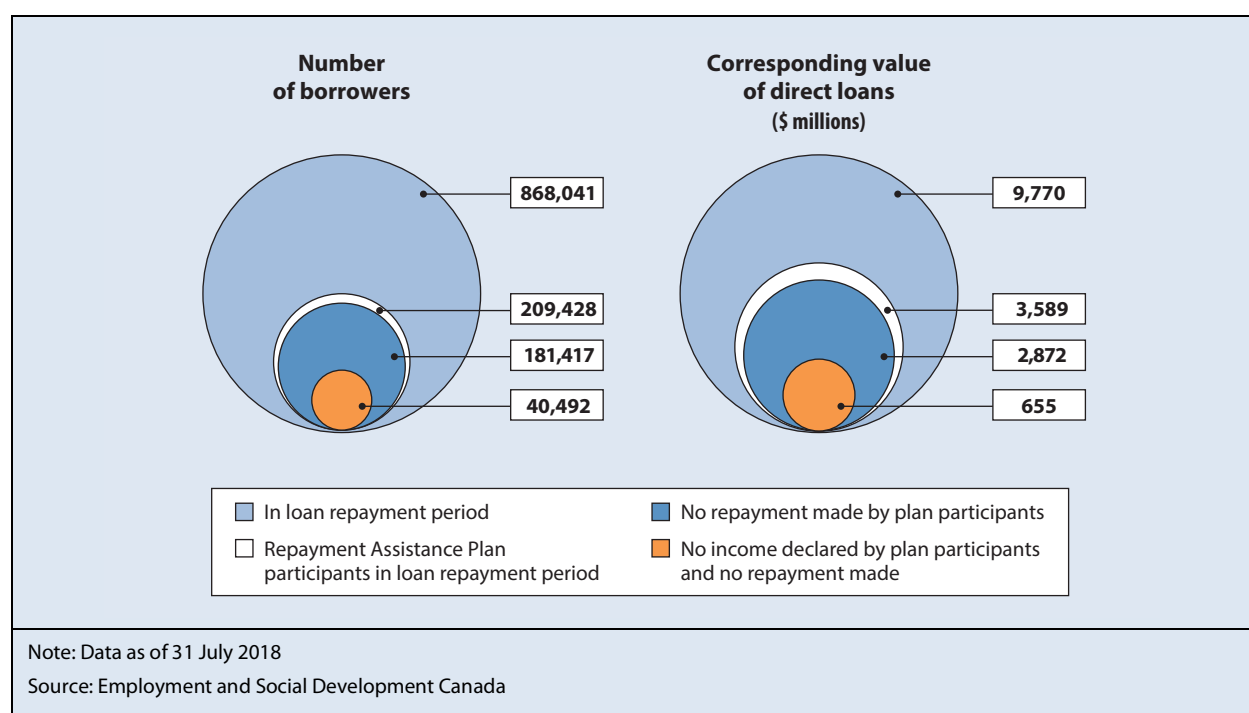
Non-repayment of student loans

2.22 We found that Employment and Social Development Canada, through its private sector service provider, did not properly check the accuracy of applications to the Repayment Assistance Plan. The department asked the service provider to sample applications for income verification. Because the service provider did not have income tax information from the Canada Revenue Agency, it checked income by relying on pay slips submitted by the applicants and did not verify family composition. It thus could not efficiently determine whether the information declared by applicants was accurate. In 2017, the department undertook a special verification that showed that 58% of participants in the Repayment Assistance Plan had an income higher than what they declared when they applied to the plan. The department also determined that 14% of these cases had a difference significant enough to result in a lower Repayment Assistance Plan benefit. In our view, the results of this special verification reinforce the need for a more robust validation process.

2.23 Since 2015, Employment and Social Development Canada had a report explaining that the Repayment Assistance Plan had an integrity problem around verifying applicants' eligibility. We found that, despite knowing this, the department still had no agreement with the Canada Revenue Agency to enable it to check the information in Repayment Assistance Plan applications against the agency's income tax information. According to a departmental report, sharing the agency's tax information would be fully effective for verification only if all plan participants filed income tax returns. In 2017, the department noted that 22% of the plan's recipients did not file a tax return and therefore their income could not be verified. During the course of the audit, the department acknowledged that the provincial practice of verifying income through income tax returns for student aid applications is a good practice. Furthermore, Ontario requires applicants to provide income tax returns to be eligible for many student loan-related programs.

2.24 As of 31 July 2018, more than 200,000 borrowers who had declared that they faced difficulties repaying their student loans were participating in the Repayment Assistance Plan. The total amount of these loans was nearly \$3.6 billion (Exhibit 2.2). We noted that 40,492 borrowers in the plan declared that they had ended their full-time post-secondary studies, had no job or income, and did not receive any form of government assistance. In our view, this number of people who declared that they had no income should have prompted the department to take appropriate measures to safeguard the integrity of the plan, given the integrity problem the department had identified.

Exhibit 2.2 Amounts at risk of non-repayment under the Repayment Assistance Plan were substantial



2.25 Over the years, the government made it easier to access the Repayment Assistance Plan by modifying the criteria for eligibility. For example, the 2016 federal budget announced that the income threshold below which no repayment was required would rise to \$25,000. We noted that, as of 31 July 2018, 87% of borrowers participating in the plan were making no repayments. The value of these loans was \$2.9 billion. In our view, this is a lot of money at risk of non-repayment, especially considering the integrity problem the department had identified.

2.26 **Recommendation.** To maximize repayment of student loans, Employment and Social Development Canada should ensure proper, systematic verification of applications to participate in the Repayment Assistance Plan.

***The department's response.** Agreed. The Repayment Assistance Plan's objective is to provide relief to persons with employment difficulty or who face sudden income or family composition changes (such as a lost job or a newborn). This is why eligibility is based on previous month's income and family composition. The Office of the Auditor General of Canada refers to provinces' use of the Canada Revenue Agency's annual tax data for student financial assistance. However, annual income information would not identify sudden financial hardship affecting plan applicants.*

Employment and Social Development Canada has a systematic, sample-based income-verification process. The department acknowledges that plan verification has challenges, specifically for applicants who report zero income in the preceding monthly period (approximately 20% of applicants) and for family composition. Work is underway to enhance verification using the Canada Revenue Agency's data. The department has engaged partners on more robust plan-verification methods. An information-sharing agreement, expected to be in place by spring 2021, will allow verification of income and family composition data against the agency's tax data during the application process while maintaining current systematic sampling practices.

Improving information submitted to Parliament

2.27 We found that a lot of information is provided to Parliament on the Canada Student Loans Program. For example, in its annual report to Parliament, Employment and Social Development Canada noted a 9% **default rate** on student loans for the 2015–16 loan year. While the department used this rate as the main indicator of the performance of its loans portfolio, we found that other indicators would also be useful to help parliamentarians and other readers better understand the performance of the program. For example, the non-repayment rate would be useful. It could include the total amount of write-offs plus interest waivers and principal forgiven (under the Repayment Assistance Plan), divided by

Default rate—Value of loans that enter repayment in a given loan year and default within 3 years, as a percentage of the value of all loans that entered repayment in that loan year.

the value of loans that should have been repaid no later than that year. Using this method, we calculated that the non-repayment rate would be 14% for the 2015–16 loan year.

2.28 Exhibit 2.3 shows that the total amount of non-repayment of direct student loans was slightly more than \$500 million in the 2018–19 fiscal year. The first row shows that \$160 million of student debt was written off (deemed unrecoverable by the Canada Revenue Agency). The second and third rows show the amounts of **interest waived** (\$244 million) and principal forgiven (\$100 million) under the Repayment Assistance Plan, which was designed for student loan recipients who declared financial hardship.

Exhibit 2.3 The total amount of non-repayment of direct student loans increased to about \$2.3 billion over 5 years

Types of non-repayment	Amounts in \$ millions per fiscal year					Total
	2014–15	2015–16	2016–17	2017–18	2018–19	
Write-offs of student debt in default	286	171	173	199	160	989
Interest waived under the Repayment Assistance Plan	148	159	176	210	244	937
Principal forgiven under the Repayment Assistance Plan	41	33	67	86	100	327
Total non-repayment amount	475	363	416	495	504	2,253
Note: This amount does not include the amounts for the Canada Student Loan Forgiveness for Family Doctors and Nurses program, which offers loan forgiveness to eligible family doctors and nurses who work in designated rural or remote communities, or amounts forgiven because of a death or a permanent disability. Source: Our calculations use Employment and Social Development Canada data						

2.29 The Canada Revenue Agency took responsibility for recovering loans in default on behalf of Employment and Social Development Canada, following an order-in-council in 2005. When the agency exhausts all reasonable avenues to collect a debt, the department sets in motion a formal process to write off the debt. A senior management committee examines the list of student debts proposed for write-off and recommends writing off debt valued at more than \$25,000. All write-offs of debt related to direct student loans require the approval of the Treasury Board. Moreover, Parliament approves the amount of write-offs yearly.

Interest waived—Amount of interest on direct loans due to the federal government that it decides not to recover under the Repayment Assistance Plan.

2.30 The *Canada Student Financial Assistance Act* limits the actions that may be taken against borrowers after they fail to acknowledge their student debts for 6 years (for example, by making a payment). The government can then write off these student debts. The 6-year period is usually calculated starting from the date on which loans become due. Each time borrowers acknowledge their debt, the 6-year period restarts.

2.31 In contrast to the practice of writing off student debt, the interest waived and principal forgiven under the Repayment Assistance Plan is not submitted for approval to a senior management committee, Treasury Board, or Parliament every year. The reason is that while write-offs represent an unintentional loss for the government, the Repayment Assistance Plan's costs (waived interest and principal forgiven) were authorized by the **Governor in Council** under the *Canada Student Financial Assistance Act*.

2.32 **Recommendation.** Employment and Social Development Canada should develop performance indicators that take into account the full impact of the Repayment Assistance Plan on the non-repayment of student loans.

The department's response. Agreed. Employment and Social Development Canada reports to Parliament on all program expenses, which include write-offs (resulting mostly from student loan default) and the cost of the Repayment Assistance Plan, through Public Accounts. This information, in more detail, is also included in the Canada Student Loans Program's annual report. Furthermore, each year, the Office of the Chief Actuary prepares a 25-year forecast of all program costs and revenues. The report is published annually and tabled in Parliament every 3 years.

Write-offs are a loss to the public purse, which the department continuously strives to reduce. The department believes the 3-year default rate reported to Parliament is an appropriate performance indicator to demonstrate and track this loss. However, the Repayment Assistance Plan is a program benefit to Canadians, and program expenditures are based on the parameters approved by Parliament.

Given the diverging program objectives of decreasing the write-off losses and increasing the use of the plan by eligible Canadians, a combined performance indicator would not provide an accurate picture of the repayment cost. However, in fall 2020, the department will work with the Office of the Chief Actuary on the development of an appropriate, but separate, indicator for the plan.

Governor in Council—The Governor General, acting on the advice of the Cabinet, as the formal executive body that gives legal effect to those decisions of Cabinet that are to have the force of law.

Limited tools for the Canada Revenue Agency to recover student loans

2.33 The Canada Revenue Agency is responsible for recovering student loans in default, while Employment and Social Development Canada retains ownership of the debt. As of 31 March 2019, the value of loans in default amounted to \$2.4 billion. The agency recovered on average \$200 million per year between the 2013–14 and 2018–19 fiscal years. The methods available for recovering student loans are more limited than those available to the agency under the *Income Tax Act*.

2.34 We found that Employment and Social Development Canada did not disclose student debts in default to credit bureaus, despite having borrowers' permission to do so and recognizing that this would prompt borrowers to repay their loans more quickly. This was inconsistent with the department's practice for **delinquent** student loans, which are reported to credit bureaus through the service provider.

2.35 **Recommendation.** To prompt borrowers to be more diligent about repaying their student debt, Employment and Social Development Canada should inform credit bureaus about student debts in default.

The department's response. Agreed. In accordance with the provisions of the contract with the Government of Canada, the service provider currently reports regularly to credit bureaus on loans they administer. This reporting is done before a borrower is in default and remains on the borrower's credit record for approximately 6 years. However, once the loan is in default and is transferred to the Canada Revenue Agency for collections, no further reporting is done. Employment and Social Development Canada is developing a process for credit bureau reporting on loans in collections, by fall 2022, as part of ongoing program enhancements.

With respect to the department's contract with the service provider, the contract has been properly managed. The contract began in 2006, and the Repayment Assistance Plan was introduced in 2009, 3 years later. Although the contract had set performance targets for default before the plan was introduced, the department ensured that the service provider used targeted measures to reduce the default rates. A new contract is currently operational and includes processes to re-baseline default targets to ensure incentive targets are aligned with current realities. Targets will be revisited on an ongoing basis to demonstrate improvement in default rates and will be appropriately challenging and account for program or policy changes.

Delinquent—Term describing a loan that has been in arrears for fewer than 270 days.

Lack of financial education tools for students

2.36 We found that Employment and Social Development Canada did not offer enough tools to help students understand their financial obligations under the Canada Student Loans Program. Since at least 2010, the Government of Canada and provincial partners, through their research, found that student borrowers understood little about the Canada Student Loans Program. Provincial studies suggested that many applicants did not read their agreements; instead, they went directly to the section where they had to sign. In 2016, the department conducted a client satisfaction survey, which showed more examples of borrowers' limited understanding, including the following:

- Only 44% of borrowers in their last year of studies knew that interest on their loans would start to accumulate from the time their studies ended.
- Only 35% of new borrowers knew that interest would start to accumulate from the time they changed their status from full- to part-time student.
- Only 19% of borrowers in their last year of studies knew about the Repayment Assistance Plan.

2.37 The Financial Consumer Agency of Canada was established in 2001. In 2007, the agency was mandated to promote financial literacy. As an educator, the agency conducted research and provided education to strengthen Canadians' financial literacy. It developed resources and tools that help students plan a budget, including student budgeting tips, or that explain concepts associated with student loans (for example, education costs and debt). This information could help remedy the gaps in students' financial literacy. We found that the agency reached out to a key stakeholder, Employment and Social Development Canada, to increase students' financial literacy. The agency repeatedly requested the department to post this information on the web portal of the National Student Loans Service Centre. At the time of our audit, however, the department, through its private sector service provider, had not done this.

2.38 In 2014, Employment and Social Development Canada established a statement of work for the service provider, which specified that students must have support throughout the loan process so that they can make sound financial decisions. The initial plan was to provide the support to students starting in April 2018, but the implementation date was postponed a first time to March 2019. The department later told us that it was planning a gradual implementation up to 2021.

2.39 In addition, some stakeholders recommended mandatory training for students before they sign loan agreements and when they abandon or complete their studies. This is the current practice in the United States, where all recipients of a direct loan from the Federal Student Aid office must undergo training about the loan and repayment process, as well as about managing spending. In our view, it would be useful to hold in-depth consultations on this subject in order to better understand how such a program could function in Canada.

2.40 **Recommendation.** As soon as possible, Employment and Social Development Canada, in collaboration with the Financial Consumer Agency of Canada, should

- make available on the web portal of the National Student Loans Service Centre all the financial information needed by loan recipients in the Canada Student Loans Program
- consult with stakeholders about the costs and benefits of mandatory training for student loan applicants before loans are provided and for student loan recipients who abandon or complete their studies

***The department's response.** Agreed. On the basis of its collaborative work with the Financial Consumer Agency of Canada, Employment and Social Development Canada established an overall financial literacy plan in 2017 as part of its transition to an electronic service delivery model. The department is also continuing to implement the multi-year plan to enhance financial literacy tools on the National Student Loans Service Centre's web portal. A virtual repayment counsellor was launched in November 2019, which provides borrowers with necessary information on their student loans, including repayment options to help support them.*

The department will continue to work with the agency to implement additional financial literacy tools as part of this plan. The department will also consult with provincial and territorial student aid programs as well as external stakeholders, by fall 2021, regarding the costs and benefits of mandatory counselling to determine feasibility and value.

***The agency's response.** Agreed. The Financial Consumer Agency of Canada will support Employment and Social Development Canada by providing access to education materials for inclusion on the web portal. The agency will also support the department with advice related to mandatory training for students receiving direct loans from the Canada Student Loans Program.*

Problems related to contracts with the private sector service provider

2.41 In 2006, Employment and Social Development Canada awarded a contract to a private sector service provider to administer the full student loan portfolio, and in 2016, the department awarded another contract to the same private sector service provider. The provider is expected to continue supplying services until at least 2027. The department can also

exercise options to extend the arrangement until 2034. In view of the lengthy contract period, it is particularly important to ensure sound contract management.

2.42 We found that the department did not properly manage the contracts with the private sector service provider:

- Some services specified in the second contract were not delivered on time.
- Incentives were paid to the private sector service provider for lowering the default rates in the first contract, even though the rates were already decreasing automatically as a result of the Repayment Assistance Plan, and despite the fact that borrowers' eligibility for the plan was not properly verified.

2.43 We found that the department did not ensure that the service provider fully delivered 1 of the projects required under the second contract: the electronic vision project for managing student loans. The project included upgrading the functionality of student accounts on the portal and replacing some functions in the department's information system. Project implementation was required for April 2018, but the date was postponed to 2021.

2.44 We calculated that around half the amount of incentives paid to the service provider under the first contract was linked to achieving a predetermined default rate. The Repayment Assistance Plan contributed to achieving that rate, because it automatically lowered the rate and thereby did not provide an incentive for the service provider to further encourage students to reimburse their loans. We calculated that the department paid at least 98% of incentives linked to the default rates to the service provider for the 2015–16 to the 2017–18 fiscal years, even though the service provider did not have to demonstrate any improvement. This is because the previous year's default rates were sometimes already better than the target to be achieved in the following year. The incentives related to the default rate that were paid to the service provider were approximately \$68 million under a 12-year contract with a value of slightly less than \$900 million. In our view, it is important that any incentives paid to a service provider be tied to significant performance improvements.

Evaluation of student financial assistance programs not comprehensive

2.45 According to Employment and Social Development Canada, the Canada Education Savings Program and the Canada Student Loans Program shared the same objective of promoting access to and completion of post-secondary education. The government invested \$1.1 billion in the Canada Education Savings Program in 2018, and the Canada Student Loans Program provided direct loans of a total value of \$2.6 billion in the 2016–17 loan year.

2.46 For the Canada Student Loans Program, we found that some elements had not yet been adequately evaluated. For example, although Repayment Assistance Plan participants undertook post-secondary education, half of them declared at the end of 2018–19 that they still had financial difficulties at least 4 years after having first used the plan. The borrowers stated that these financial difficulties prevented them from repaying their student loans as planned. In our view, it is therefore essential to fully understand the true causes of the non-repayment of student loans in order to develop and implement appropriate solutions.

2.47 For the Canada Education Savings Program, Employment and Social Development Canada conducted program evaluations in 2003, 2009, and 2015. However, in our view, several issues warrant more research and analysis to improve the program's overall impact and efficiency—for example:

- According to departmental reports, increased savings could help reduce students' reliance on loans. However, evaluations did not measure the impact of increased savings on the Canada Students Loans Program.
- According to studies provided by the department, participation in post-secondary education is mainly determined by the parents' education level and the child's academic performance; financial barriers are much less important. Therefore, in our view, the impact of the Canada Education Savings Program on post-secondary education participation needs to be further evaluated.
- According to departmental reports, low-income families did not fully participate in the Canada Education Savings Program. For example, even though the Canada Learning Bond is paid by the government without any contribution from families, about 62% of eligible children did not receive it as of 2018 because no account had been opened for them. Also, the proportion of low-income families with a Registered Education Savings Plan account who contributed and therefore received the grant decreased from 92% to 74% between 2007 and 2018. In our view, the department should evaluate elements that may affect participation in the program, such as the fact that Canada Learning Bond amounts and Canada Education Savings Grant amounts are not indexed to inflation and that income thresholds that determine program eligibility do not fully account for the number of children in the family.

2.48 **Recommendation.** Employment and Social Development Canada should consider undertaking a thorough evaluation of both of the federal student financial assistance programs to, among other things,

- further assess the reasons for student loan non-repayment in order to develop appropriate solutions
- evaluate the impact of the Canada Education Savings Program on participation in and completion of post-secondary education and on the Canada Student Loans Program
- understand why there is low participation in the Canada Education Savings Program

***The department's response.** Agreed. Employment and Social Development Canada is committed to producing analysis, reports, and evaluations on federal student financial assistance programs.*

The department continuously looks at new opportunities to study the impact of student financial assistance programs. For example, a research project will use newly linked survey and administrative data by Statistics Canada to assess interactions between the Canada Student Loans Program (CSLP) and the Canada Education Savings Program (CESP), and the impact of the CESP on post-secondary education outcomes.

Until now, the data required to study the full impact of the CESP on post-secondary education participation was not available, given the first full youth cohort who was eligible for all program components reached maturity only in 2017. The department plans to start an in-depth CESP evaluation in spring 2020 to assess the interactions of the CESP and the CSLP and the unique contribution of the CESP on post-secondary education participation and completion.

The department will incorporate relevant questions pertaining to non-repayment of student loans in a future program evaluation, which is planned to start in spring 2022.

Conclusion

2.49 We concluded that Employment and Social Development Canada did not manage some aspects of the financial assistance for post-secondary education and the risks to the public purse in an efficient manner, while facilitating access for students to colleges and universities. The Canada Revenue Agency did not have the necessary tools to maximize recovery of student loans in default. Finally, the department had not yet made financial literacy tools available to students, as suggested by the Financial Consumer Agency of Canada.

About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada on student financial assistance. Our responsibility was to provide objective information, advice, and assurance to assist Parliament in its scrutiny of the government's management of resources and programs, and to conclude on whether student financial assistance programs complied in all significant respects with the applicable criteria.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The Office of the Auditor General of Canada applies the Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we complied with the independence and other ethical requirements of the relevant rules of professional conduct applicable to the practice of public accounting in Canada, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from entity management:

- confirmation of management's responsibility for the subject under audit
- acknowledgement of the suitability of the criteria used in the audit
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided
- confirmation that the audit report is factually accurate

Audit objective

The objective of this audit was to determine whether, in accordance with their respective responsibilities, Employment and Social Development Canada and the Canada Revenue Agency managed financial assistance for post-secondary education and the risks to the public purse in an efficient manner, while facilitating access for students to colleges and universities. The audit also focused on whether the Financial Consumer Agency of Canada collaborated with stakeholders to strengthen the financial literacy of students.

Scope and approach

The audit on student financial assistance focused on Employment and Social Development Canada, the Canada Revenue Agency, and the Financial Consumer Agency of Canada.

During the audit, we interviewed representatives of Employment and Social Development Canada, the Canada Revenue Agency, and the Financial Consumer Agency of Canada. We also interviewed representatives of certain provincial governments and stakeholders. We visited the Canada Revenue

Agency's Tax Services Office in Belleville, Ontario, where most of the work to recover student loans takes place. We also visited the premises of the private sector supplier, which provides services to the National Student Loans Service Centre. Finally, we examined and analyzed documents provided by the 3 entities on which the audit focused.

We did not examine the Canada Student Loans Program's non-repayable component (Canada Student Grants), tax credits related to post-secondary education, tuition fees, the quality of services provided to students by the private sector supplier, or the management of Registered Education Savings Plans.

Criteria

Criteria	Sources
We used the following criteria to determine whether, in accordance with their respective responsibilities, Employment and Social Development Canada and the Canada Revenue Agency managed financial assistance for post-secondary education and the risks to the public purse in an efficient manner, while facilitating access for students to colleges and universities, and whether the Financial Consumer Agency of Canada collaborated with stakeholders to strengthen the financial literacy of students:	
Employment and Social Development Canada carefully analyzes the impact of the Canada Education Savings Program on access to post-secondary education as well as on use of the Canada Student Loans Program.	<ul style="list-style-type: none"> • Canada Education Savings Program: Summative Evaluation Report, Employment and Social Development Canada, 2015 • 2017–18 Departmental Results Report, Employment and Social Development Canada • <i>Canada Education Savings Act</i>
The Financial Consumer Agency of Canada collaborates with stakeholders to strengthen the financial literacy of students, and Employment and Social Development Canada informs students about their future obligations regarding loans that they might receive under the Canada Student Loans Program.	<ul style="list-style-type: none"> • <i>Financial Consumer Agency of Canada Act</i> • Directive on Public Money and Receivables, Treasury Board • Canada Student Loans Program Service Provider Procurement RFP, Annex A—Statement of Work, September 2014
Employment and Social Development Canada administers the Canada Student Loans Program in an efficient manner and maximizes student loan repayments.	<ul style="list-style-type: none"> • Directive on Public Money and Receivables, Treasury Board • Contracting Policy, Treasury Board • Policy on Service, Treasury Board
Employment and Social Development Canada and the Canada Revenue Agency analyze student loan recovery activities and adjust procedures accordingly to maximize the funds recovered for the federal government.	<ul style="list-style-type: none"> • <i>Canada Student Financial Assistance Act</i> • <i>Financial Administration Act</i> • Memorandum of Understanding for the Roles of the Parties Relating to the Collection of Specific Employment and Social Development Canada Debts Due to Her Majesty in Right of Canada, June 2015

Period covered by the audit

The audit covered the period from 31 March 2017 to 31 March 2019. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the subject matter of the audit, we also examined certain matters that preceded the start date of this period.

Date of the report

We obtained sufficient and appropriate audit evidence on which to base our conclusion on 20 December 2019, in Ottawa, Canada.

Audit team

Principal: Philippe Le Goff
Director: Mathieu Lequain

André Léonard
Rose Pelletier
Stephen Spence

List of Recommendations

The following table lists the recommendations and responses found in this report. The paragraph number preceding the recommendation indicates the location of the recommendation in the report, and the numbers in parentheses indicate the location of the related discussion.

Recommendation	Response
Financial assistance for students 2.26 To maximize repayment of student loans, Employment and Social Development Canada should ensure proper, systematic verification of applications to participate in the Repayment Assistance Plan. (2.22–2.25)	<p>The department's response. Agreed. The Repayment Assistance Plan's objective is to provide relief to persons with employment difficulty or who face sudden income or family composition changes (such as a lost job or a newborn). This is why eligibility is based on previous month's income and family composition. The Office of the Auditor General of Canada refers to provinces' use of the Canada Revenue Agency's annual tax data for student financial assistance. However, annual income information would not identify sudden financial hardship affecting plan applicants.</p> <p>Employment and Social Development Canada has a systematic, sample-based income-verification process. The department acknowledges that plan verification has challenges, specifically for applicants who report zero income in the preceding monthly period (approximately 20% of applicants) and for family composition. Work is underway to enhance verification using the Canada Revenue Agency's data. The department has engaged partners on more robust plan-verification methods. An information-sharing agreement, expected to be in place by spring 2021, will allow verification of income and family composition data against the agency's tax data during the application process while maintaining current systematic sampling practices.</p>

Recommendation	Response
<p>2.32 Employment and Social Development Canada should develop performance indicators that take into account the full impact of the Repayment Assistance Plan on the non-repayment of student loans. (2.27–2.31)</p>	<p>The department's response. Agreed. Employment and Social Development Canada reports to Parliament on all program expenses, which include write-offs (resulting mostly from student loan default) and the cost of the Repayment Assistance Plan, through Public Accounts. This information, in more detail, is also included in the Canada Student Loans Program's annual report. Furthermore, each year, the Office of the Chief Actuary prepares a 25-year forecast of all program costs and revenues. The report is published annually and tabled in Parliament every 3 years.</p> <p>Write-offs are a loss to the public purse, which the department continuously strives to reduce. The department believes the 3-year default rate reported to Parliament is an appropriate performance indicator to demonstrate and track this loss. However, the Repayment Assistance Plan is a program benefit to Canadians, and program expenditures are based on the parameters approved by Parliament.</p> <p>Given the diverging program objectives of decreasing the write-off losses and increasing the use of the plan by eligible Canadians, a combined performance indicator would not provide an accurate picture of the repayment cost. However, in fall 2020, the department will work with the Office of the Chief Actuary on the development of an appropriate, but separate, indicator for the plan.</p>
<p>2.35 To prompt borrowers to be more diligent about repaying their student debt, Employment and Social Development Canada should inform credit bureaus about student debts in default. (2.33–2.34)</p>	<p>The department's response. Agreed. In accordance with the provisions of the contract with the Government of Canada, the service provider currently reports regularly to credit bureaus on loans they administer. This reporting is done before a borrower is in default and remains on the borrower's credit record for approximately 6 years. However, once the loan is in default and is transferred to the Canada Revenue Agency for collections, no further reporting is done. Employment and Social Development Canada is developing a process for credit bureau reporting on loans in collections, by fall 2022, as part of ongoing program enhancements.</p> <p>With respect to the department's contract with the service provider, the contract has been properly managed. The contract began in 2006, and the Repayment Assistance Plan was introduced in 2009, 3 years later. Although the contract had set performance targets for default before the plan was introduced, the department ensured that the service provider used targeted measures to reduce the default rates. A new contract is currently operational and includes processes to re-baseline default targets to ensure incentive targets are aligned with current realities. Targets will be revisited on an ongoing basis to demonstrate improvement in default rates and will be appropriately challenging and account for program or policy changes.</p>

Recommendation	Response
<p>2.40 As soon as possible, Employment and Social Development Canada, in collaboration with the Financial Consumer Agency of Canada, should</p> <ul style="list-style-type: none"> • make available on the web portal of the National Student Loans Service Centre all the financial information needed by loan recipients in the Canada Student Loans Program • consult with stakeholders about the costs and benefits of mandatory training for student loan applicants before loans are provided and for student loan recipients who abandon or complete their studies (2.36–2.39) 	<p>The department's response. Agreed. On the basis of its collaborative work with the Financial Consumer Agency of Canada, Employment and Social Development Canada established an overall financial literacy plan in 2017 as part of its transition to an electronic service delivery model. The department is also continuing to implement the multi-year plan to enhance financial literacy tools on the National Student Loans Service Centre's web portal. A virtual repayment counsellor was launched in November 2019, which provides borrowers with necessary information on their student loans, including repayment options to help support them.</p> <p>The department will continue to work with the agency to implement additional financial literacy tools as part of this plan. The department will also consult with provincial and territorial student aid programs as well as external stakeholders, by fall 2021, regarding the costs and benefits of mandatory counselling to determine feasibility and value.</p> <p>The agency's response. Agreed. The Financial Consumer Agency of Canada will support Employment and Social Development Canada by providing access to education materials for inclusion on the web portal. The agency will also support the department with advice related to mandatory training for students receiving direct loans from the Canada Student Loans Program.</p>
<p>2.48 Employment and Social Development Canada should consider undertaking a thorough evaluation of both of the federal student financial assistance programs to, among other things,</p> <ul style="list-style-type: none"> • further assess the reasons for student loan non-repayment in order to develop appropriate solutions • evaluate the impact of the Canada Education Savings Program on participation in and completion of post-secondary education and on the Canada Student Loans Program • understand why there is low participation in the Canada Education Savings Program (2.45–2.47) 	<p>The department's response. Agreed. Employment and Social Development Canada is committed to producing analysis, reports, and evaluations on federal student financial assistance programs.</p> <p>The department continuously looks at new opportunities to study the impact of student financial assistance programs. For example, a research project will use newly linked survey and administrative data by Statistics Canada to assess interactions between the Canada Student Loans Program (CSLP) and the Canada Education Savings Program (CESP), and the impact of the CESP on post-secondary education outcomes.</p> <p>Until now, the data required to study the full impact of the CESP on post-secondary education participation was not available, given the first full youth cohort who was eligible for all program components reached maturity only in 2017. The department plans to start an in-depth CESP evaluation in spring 2020 to assess the interactions of the CESP and the CSLP and the unique contribution of the CESP on post-secondary education participation and completion.</p> <p>The department will incorporate relevant questions pertaining to non-repayment of student loans in a future program evaluation, which is planned to start in spring 2022.</p>

Spring 2020

**Reports of the Auditor General of Canada
to the Parliament of Canada**

1. Immigration Removals
2. Student Financial Assistance
3. Supplying the Canadian Armed Forces—National Defence

Report of the Auditor General of Canada to the Board of Directors of the Canadian Commercial Corporation,
Special Examination—2019

Report of the Auditor General of Canada to the Governing Council of the Standards Council of Canada,
Special Examination—2019

Report of the Auditor General of Canada to the Board of Trustees of the National Gallery of Canada,
Special Examination—2019