AUDITOR GENERAL'S DEPARTMENT OF JAMAICA

Student Loan Bureau's Management of the Revolving Loan Fund (RLF)

Performance Audit Report

July 2018

"A Better Country Through Effective Audit Scrutiny"

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The Department is headed by the Auditor General, Pamela Monroe Ellis, who submits her reports to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Section 29 of the Financial and Administration and Audit Act.

This report has been prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.

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Vision

A better country through effective audit scrutiny

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THE STUDENTS' LOAN BUREAU

KEY STATISTICS AT A GLANCE

54,363
Beneficiaries
2012-13 to
2016-17

$17.0B
Disbursed
2012-13 to
2016-17

$11.3B
NPL
@ February
2018

$2.5B
Loan
Write-off
2012-13 to
2015-16

STUDENTS’ LOAN BUREAU – VALUE FOR MONEY ASSERTIONS

EFFECTIVENESS

SLB approved 96 per cent of applications with a take-up rate of 77 per cent.

EFFICIENCY

Current collections and enforcement tools failed to adequately deter delinquency & encourage repayments.

ECONOMY

SLB did not obtain full value from $57.1 million paid to acquire a loan management software.

Auditor General's Overview

The Student's Loan Bureau (SLB) plays a vital role in providing access to tertiary education for eligible Jamaicans who are unable to cover the cost of tuition at approved institutions in Jamaica. The United Nations Sustainable Development Goal No. 4 is *"to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all"* and Vision 2030 National Development Plan (NDP) targets a 50 per cent gross enrolment rate at the tertiary level by 2030.

I commissioned a performance audit to determine whether SLB managed its loan collection and enforcement activities to **contribute** meaningfully to the sustainability of the Revolving Loan Fund. In accordance with its mandate to provide affordable financing to students pursuing tertiary education, SLB disbursed tuition loans totaling $17.02 billion over the five-year period 2012-13 to 2017-18. On the other hand, non-performing loans stood at $11.3 billion as disclosed in SLB's management accounts as at February 2018, which is a significant increase relative to $1 billion as at March 2013.

SLB's loan portfolio performance is affected by external factors, such as unemployment, underemployment and migration, which contributed to the high level of delinquency. Consequently, SLB has to rely on a robust internal loan management system to mitigate against the risk exposure brought on by the external factors. We could not readily determine that their loan management plan was adequate to aid SLB in achieving its objectives as SLB did not provide for review a disaggregation of its loan portfolio and associated risks, or indicate customised strategies to reduce the rate of delinquency.

As a first step, SLB need to have a robust system in place to ensure timely monitoring and intervention to minimize as far as possible, the rate of delinquency, for the high risk loans. However, our review revealed some instances where enforcements actions occur 1 to 2 years after it becomes eligible for enforcement action. This is critical as we found that borrowers were fast becoming delinquent as evidenced by 62 per cent or $2.75 billion of loans due for initial repayment commencing January 2016, becoming non-performing within 12 months. Further, inefficiencies in SLB's Loan Management System (LMS) software contributed to significant delays in the updating and maintenance of beneficiary loan accounts.

Thanks to the management and staff of the SLB for the cooperation and assistance, as well as courtesies extended to the audit team throughout the period of the audit.

Pamela Monroe Ellis, FCCA, FCA
Auditor General

Executive Summary

The mandate of Students' Loan Bureau (SLB) is to provide loans for eligible Jamaicans to fund tuition costs at the tertiary level. This mandate is consistent with Jamaica's Vision 2030 National Development Plan (NDP), which targets a gross enrolment rate at tertiary level of 50 per cent by 2030 and the United Nations Sustainable Development Goal No. 4 *"to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all"*. In accordance with Jamaica's goal of providing access to tertiary education, SLB currently offers three main loan products: Targeted; Postgraduate and Parent Plus loans (SLB PAYS). As at April 2018, 99 per cent of SLB's loan portfolio, managed by its Loan Management System, related to the targeted loan facility, while SLB PAYS and Postgraduate facilities accounted for the remaining amount. In addition, SLB provides Grant-In-Aid (GIA) to help the neediest of eligible students with school-related expenses.

We undertook a performance audit to determine whether the SLB managed its loan collection and enforcement activities to **contribute** meaningfully to the sustainability of the Revolving Loan Fund. The key findings of the audit are summarized below.

Key Audit Question

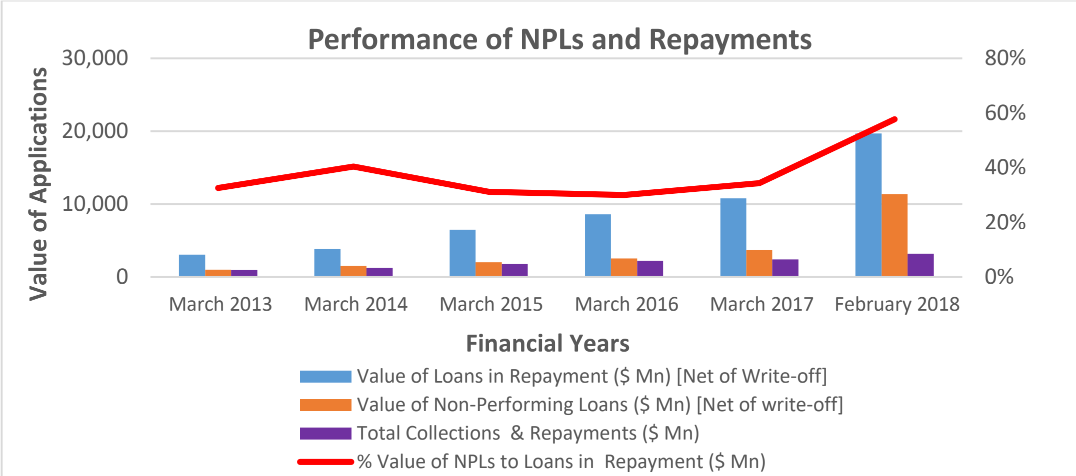
Is SLB managing its loan collection and enforcement activities to contribute meaningfully to the sustainability of the Revolving Loan Fund?

What We Found

1. **SLB approved 96 per cent of applicants[1] for the five-year period 2012-13 to 2016-17, which accorded with its mandate to provide affordable financing to students pursuing tertiary education**. However, only 54,363[2] or 77 per cent accessed a total of $17.02 billion, with annual loan disbursement averaging $3.4 billion. SLB identified applicants receiving scholarships, obtaining part-time employment or deferring their studies as reasons for the less than 100 per cent take-up of approved loans. At the same time, the number of beneficiaries accessing student loans declined by 17 per cent to 9,742 in 2016-17 from 11,512 in 2012-13.

[1] based on its means test to determine eligibility for tuition loans

[2] represents 77 per cent of approved applicants (70, 424) that accessed student loan facility.



2. **The stock of non-performing loans (NPLs) rapidly moved to $11.4 billion (11,189 accounts) from $1 billion (8,489 accounts) over the five-year period 2012-13 to 2017-18.** As a percentage of total loans in repayment[3], NPLs increased to 58 per cent at February 2018 from 33 per cent at March 2013. We found that borrowers were fast becoming delinquent as evidenced by 62 per cent or $2.75 billion of loans due for initial repayment commencing January 2016, becoming non-performing within 12 months. SLB identified unemployment, underemployment and migration as major causal factors of borrowers' delinquency, which SLB indicated was as high as 70 per cent for some groups. Given that labour market conditions are outside SLB's control, we expected SLB to adopt an aggressive stance to collections and enforcement. SLB did not provide for review a disaggregation of its loan portfolio and associated risks, or indicate any customised strategies to address delinquency among specific groups. Further, we found SLB's guarantor system to be only partially effective, collecting only $35.8 million from 96 guarantors over the period 2010-2017.

   In May 2018, SLB resubmitted to Ministry of Finance and the Public Service (MoFPS), a proposal previously submitted in 2012, for the amendment of the Students' Loan Fund Act for garnishment of beneficiaries' income and assets. The current Act provides for Court action to recover non-performing loan amounts[4]. As at July 2018, SLB was awaiting MoFPS's decision on the way forward.

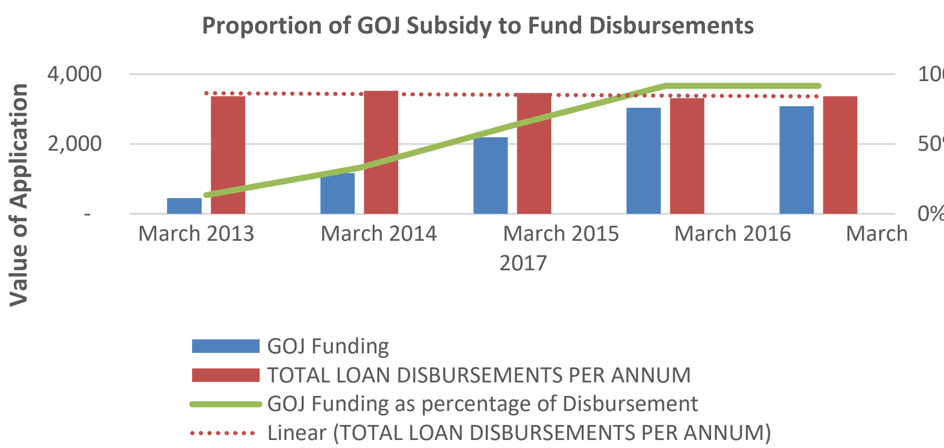
3. SLB's policy stipulates that delinquent loans[5] should be transferred to the Legal Department (LD) for enforcement action after 365 days. However, SLB's records showed that as at March 2018, 9,671 accounts valued at $6.94 billion under management by SLB's Loan Servicing Department (LSD), were outstanding in excess of 365 days. Hence, SLB's failure to transfer loans to its Legal Department on a timely basis, limited the effectiveness of its enforcement action to increase the recovery of

[3] Included in the total loan portfolio are loans in moratorium, whereby the students are receiving disbursements over the period of their study for which no repayment is expected. As a result, a determination as to their quality - performing or non performing, cannot be determined.
[4] Section 15 of the Students Loan Fund Act stated that *"all debts due to the Bureau may be recovered, without limit of amount, in a Resident Magistrate's Court."*.

[5] Loans are considered delinquent when repayment is 90 days past due

outstanding debt. For financial year 2017-18, SLB debt collectors under the management of the Legal Department, recovered $932 million[6] from borrowers owing $7.95 billion for over 365 days. From a sample of 97 loan accounts, we found that 29 accounts were not transferred to SLB's Legal Department for periods ranging from 395 days to 3 years, which further highlights weaknesses in loan management.

4. **The growth in non-performing loans and write-off of uncollectible loans totalling $2.5 billion, adversely impacted SLB's liquidity position; consequently, SLB had to rely on Government of Jamaica (GOJ) subsidy to support loan disbursements.** GOJ subsidy, as a proportion of total loan disbursement rose to 91 per cent or $3.1 billion in 2016-17 from 13 per cent or $0.4 billion in 2012-13. To assist in funding tuition loans, Ministry of Finance and the Public Service (MoFPS) approved the withdrawal of $1.3 billion from SLB's self-insurance fund, earmarked to mitigate risk of permanent disability or death of the borrower.



SLB's cash flow challenges underscores the need for a long-term strategy to fund tertiary education. However, it was not evident that management had considered any medium to long-term plans and activities to identify other funding sources; in a context where Vision 2030 NDP indicates the use of private finance as a means of funding tertiary education.

5. **SLB's Loan Management System (LMS) software acquired in 2012 could not accurately identify the loan balance of each beneficiary in a timely manner.** A number of features of the LMS were non-functional, resulting in the need for extensive manual reconciliation with other internal electronic platforms[7] to verify loan balances. This contributed to significant delays in the updating and maintenance of beneficiary loan accounts and the identification of non-recoverable loans. Accordingly, SLB did not obtain full value for $57.1 million paid to the suppler for the LMS software.

[6] Projected collections for 2017-18 totalled $987 million
[7] Data from FourGen, intranet and Excel spreadsheets

What Should Be Done

- Review loan collection and enforcement strategies, including the guarantor system, to reduce loan delinquency.
- As a matter of priority, implement a robust loan management system to allow for the timely finalisation of loan receivables.
- Solicit MoFPS support to develop a roadmap for achieving the long term sustainable funding of tertiary education.

Part 1 Introduction

Background

1.1 The Students' Loan Bureau (SLB), established in 1971 under the Students' Loan Fund Act is charged with the responsibility of providing loan financing for tertiary education. The achievement of this mandate is critical to Jamaica attaining its Vision 2030 National Development Plan target of gross enrolment rate at the tertiary level of 50 per cent by 2030. The United Nations Sustainable Development Goal No. 4 "*to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all"* is consistent with Jamaica's goal of providing access to tertiary education.

Overview of the Student Loan Scheme

1.2 SLB's current mission is to "provide affordable financing to students pursuing tertiary education thereby contributing to national development". Section 7 of the Students' Loan Fund Act states the functions of the SLB as:

a) To provide from the Fund established under this Act, on such terms and conditions as may be specified by the Bureau:
  i. loans or grants, in its absolute discretion to approved students;
  ii. loans to approved financial institutions for the purpose of enabling such institutions to provide loans to approved students;

b) To negotiate and enter into loan agreements with borrowers;
c) To administer and invest the moneys of the Fund;
d) To receive and administer funds entrusted to the Bureau for making loans or grants to approved students for educational purposes or to approved financial institutions for re-loan to approved students for such purposes.

SLB Loan Products

1.3 The SLB provides loans to fund tuition costs for students at tertiary intuitions, through its Revolving Loan Fund. SLB currently offers three main loan products: Targeted, Postgraduate and Parent Plus (SLB PAY) loans. In addition, the SLB provides Grant-In-Aid (GIA) to help the neediest of eligible students with school-related expenses. Eligible students are those whose 'means test score' places them in Quintiles 1, 2 and 3 of the Jamaican Survey of Living Conditions (JSLC) designating them as *'persons living below the poverty line'*. The parameters of the means test include household income, number of dependents, number of persons in the household and the type and size of home[8]. This test is used in conjunction with a credit score model to aid in targeting applicants for allocation of loans and grants. The means test is required particularly in situations where loan demand is greater than the available funds as well as to identify those applicants that are most in need of grant-in-aid assistance to help with school related expenses.

[8] The means test is currently under review by SLB.

1.4 As at April 2018, 99 per cent of the loan portfolio related to the targeted loan facility while SLB PAYS and Post Graduate accounted for the remaining amount (**Table 1**). By way of correspondence dated July 20, 2018, SLB indicated that the information *"reflected loans that are managed by LMS, however there are PAYS and Postgraduate loans that are currently maintained in MS Excel, pending transfer to LMS as soon as the developers provide fixes to the system issues being encountered"*.

Table 1 Loan products and their proportion of the total loan portfolio (LMS)

LOAN FACILITY	PURPOSE OF LOAN	NUMBER OF TUITION LOANS	TUITION LOANS ($BN)
Targeted	Provides tuition fees for students from lower income households. Under this facility, repayment is expected to commence after graduation and a specified grace period.	25,827	22.8
SLB PAYS (Parent Plus)	To undergraduate students who are employed and also to parents or guardians who may wish to apply for the loans on behalf of their children or spouse.	196	0.63
Post Graduate	To Masters and Doctoral students who are employed and also to parents who may wish to apply for the loans on behalf of their children/ spouse.	26	0.04
TOTAL		**26,049**	**23.47**

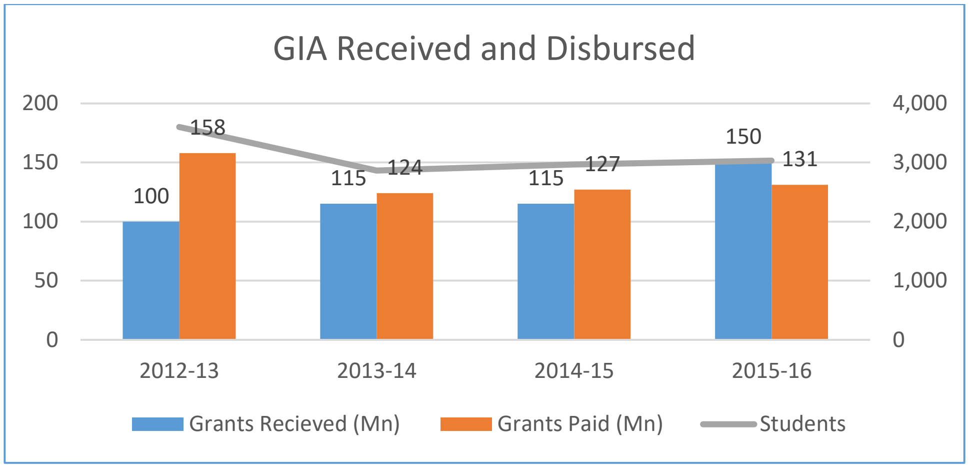
Source: AuGD's compilation from SLB's Loan Management System (LMS) data

Grant in Aid Programme

1.5 SLB operates a Grant-in-Aid (GIA) programme, funded by the Government of Jamaica (GOJ) through annual budget allocations. The grant sum is disbursed to students through the tertiary institutions in two payments during the academic year. Between academic years[9] 2012-13 to 2015-16, a total of $539.3 million was disbursed to tertiary institutions for 12,455 students. The number of students benefiting from the Grant-in-Aid programme decreased to 3,029 in 2015-16, relative to 3,600 in 2012-13 (**Figure 1**). Funds received from the Ministry of Finance, ranged from $100 million to $150 million over the 2012-2018 period.

[9] From September to June of the next year

Figure 1 SLB's Grant in Aid Total Disbursement and Number of Students



Note: Amounts disbursed include balance remaining from prior years in addition to amounts received during the respective years.
Source: AuGD's analysis of SLB's data

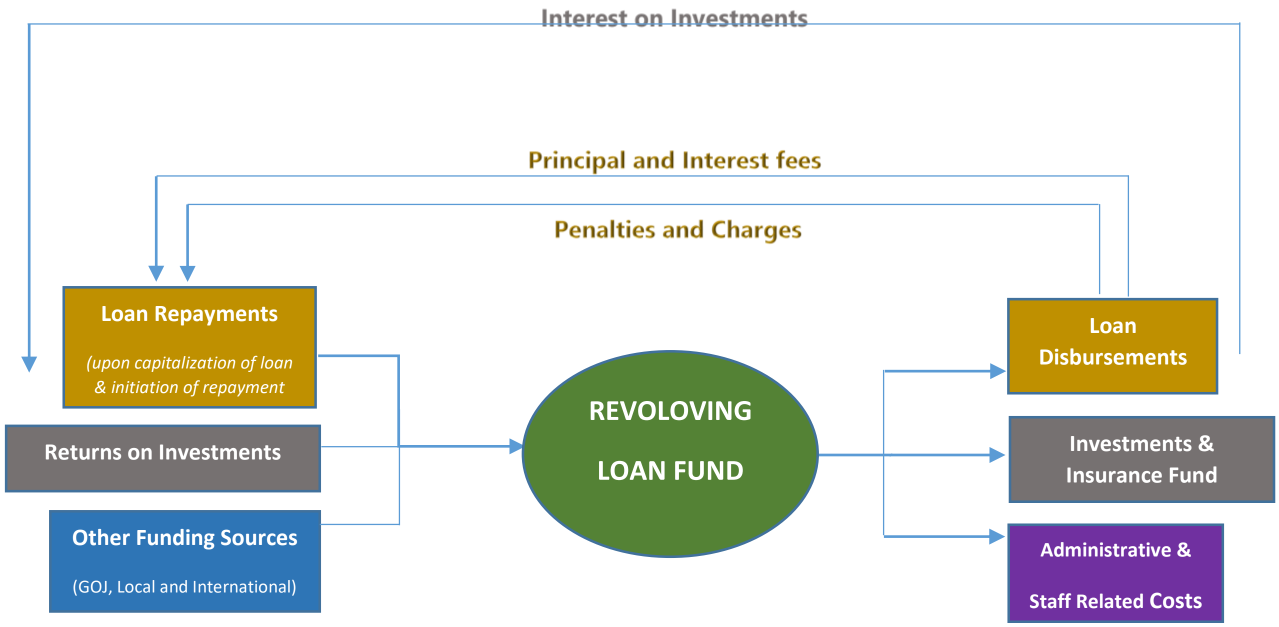
1.6 SLB's Loan Policy requires that for Targeted Loans, borrowers commence loan repayment after graduation (the following January). However, there is no grace period for *Postgraduate* and *SLB PAYS* loans and hence repayment begins immediately after the loan has been disbursed, the aim being to reduce the risk of default. SLB policy stipulates that a loan be in default 30 days after the borrower has failed to make payments. The loan is considered non-performing when repayment is 90 days past due.

Funding Sources

1.7 The Revolving Loan Fund (RLF) was initially funded by monies from multilateral sources with the intent to fund a revolving scheme from loan repayment by beneficiaries (**Figure 2**). Over the review period, 2012-2018, the three main sources of funding for the RLF were:

- Government budget available for loans and grants to students
- Money recovered from loan beneficiaries; and
- Grants and loans offered by multilateral support programs.

Figure 2 SLB's Pooling and Movement of RLF Funds



Source: AuGD's compilation

1.8 Loans financing for tertiary education is reflected in SLB's major asset, loans receivable, representing 78 per cent of its total asset base, as at March 2017. SLB's assets as at March 2017, totaled $25.2 billion, representing an 18 per cent increase above the previous year ($21.4 billion). SLB's liability as a percentage of total assets improved to 29.4 per cent as at March 31, 2017 from 42 per cent as at March 31, 2013 (**Table 2**), due mainly to the increase in the loan portfolio.

Table 2 Liabilities / Total Assets

	March 2013 ($Mn)	March 2014 ($Mn)	March 2015 ($Mn)	March 2016 ($Mn)	March 2017[10] ($Mn)
Total Assets	11,228	15,186	17,792	21,404	25,230
Total Liabilities	4,797	7,685	8,072	7,016	7,418
Liability as a percentage of total assets[11]	42.72%	50.61%	45.37%	32.78%	29.40%

Source: AuGD's analysis of SLB's data

[10] Unaudited figures - At the time of our audit, the audited financial statements for financial years 2016-17 were outstanding, in breach of the PBMA Act

[11] Liability-to-Assets – refers to the ratio of an entity's liability to total assets

Audit Objective, Scope and Methodology

1.9 The objective of the audit was to assess whether SLB was managing its loan collection and enforcement activities to **contribute** meaningfully to the sustainability of the Revolving Loan Fund. The audit sought to evaluate:

i. Whether there was adequate oversight of loan operations; the risk management framework identifies, assess and monitor key risks;
ii. If systems are in place to monitor loan disbursement, repayments and balances; and
iii. Whether SLB was collecting sufficient funds to meet loan demand; establish mechanisms in place to reduce delinquency; and conduct periodic financial assessment of the RLF.

1.10 Our assessment covered a six-year period (2012-13 to 2017-18) and reflected specifically on three themes namely, Governance, Resource Management and Information & Communications Technology, which formed part of the Auditor General's strategic priorities.

1.11 On May 21, 2018, we provided SLB with a draft of our report for review and comment. The figures included in the report were obtained from SLB records and audited financial statements, for which confirmation was required by SLB. Responses received from SLB were considered while preparing this report and these have been included, where feasible. The audit did not:

- undertake a comprehensive assessment of SLB's Information and Communication Technology (ICT) systems;
- examine the procedures regarding individual loan applications.

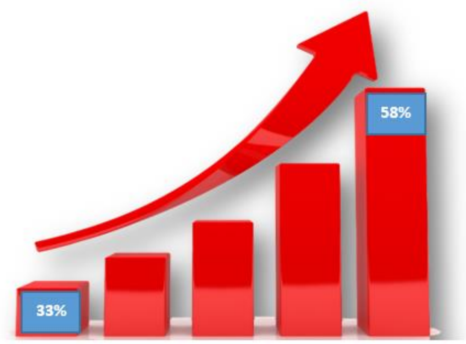
1.12 We planned and conducted our audit in accordance with the Government Auditing Standards, which are applicable to Performance Audit, as well as standards issued by the International Organization of Supreme Audit Institutions (INTOSAI). Our assessment included a review of SLB's records, policy documents, board and sub-committee minutes, internal audit reports, annual reports and financial analyses. We also conducted review of prior year AuGD's reports, media reports, and applicable laws.

1.13 This report was prepared to inform Parliament and the public in their assessment of whether SLB was managing the Revolving Loan Fund efficiently and effectively. The audit findings, conclusions and recommendations do not constitute legal opinion and should not be considered as such.

Part 2 LOANS MANAGEMENT

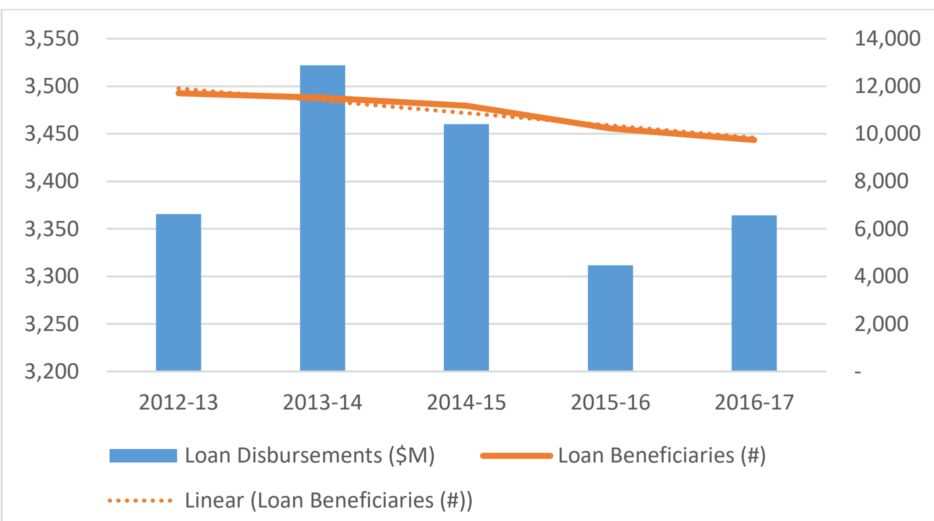
58 per cent of SLB's loans (in repayment) were non-performing

2.1 SLB's non-performing loans (NPL) as a percentage of total loans in repayment[12] increased to 58 per cent as at March 2018, moving to $11.4 billion from $1 billion at March 2013. This was in a context where the total number of beneficiaries declined by 17 per cent, whereas annual loan disbursement remained relatively constant, averaging $3.4 billion per annum. These developments coincided with an average of 5 per cent per annum increase in tuition costs at tertiary institutions, over the period 2012-13 to 2016-17. SLB approved 70,424 (96 per cent) of applications received and disbursed $17.02 billion to 54,363 beneficiaries; indicating that only 77 per cent of approved applicants accessed loans **(Figure 3)**.



% of 'Non-Performing Loans' to 'Total Loans in Repayment' increased to 58% as at February 2018

Figure 3 Total Loan Disbursement and Total Number of Beneficiaries (2012-13 to 2016-17)



Source: AuGD's analysis of SLB's data

[12] Included in the total loan portfolio are loans in moratorium, whereby the students are receiving disbursements over the period of their study for which no repayment is expected.

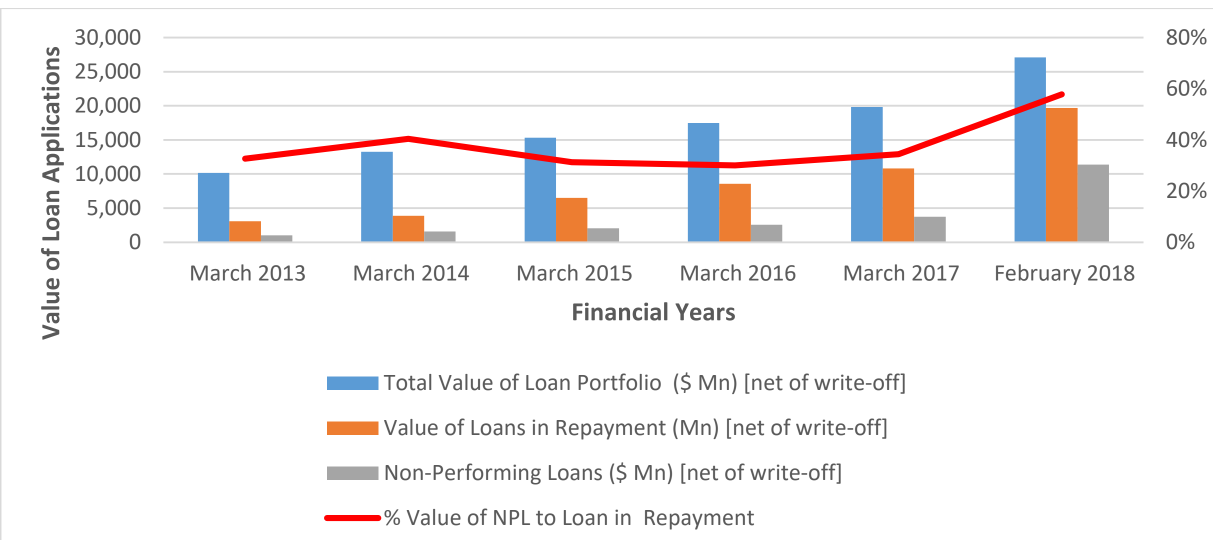
2.2 During the period 2013-2014 to 2017-2018, the number of NPLs increased by 2,700 accounts, moving to 11,189 in 2018 from 8,489 in 2014 (**Table 3**).

Table 3 Comparison of Delinquent Loans to Total Loan Portfolio and Loans in Repayment

Financial Year End	Total Value of Loan Portfolio ($ Mn) *[net of write-off]*	Value of Loans in Repayment (Mn) *[net of write-off]*	No. of Loans in Repayment Account	Non-Performing Loans ($ Mn) [net of write-off]	Non-Performing Loans Account (#)	% Value of NPL to Total Loan Portfolio	% Value of NPL to Loan in Repayment
March 2013	10,150	3,098	*NP*	1,010	*NP*	**10%**	**33%**
March 2014	13,249	3,891	12,924	1,571	8,489	**12%**	**40%**
March 2015	15,315	6,514	19,209	2,034	15,283	**13%**	**31%**
March 2016	17,465	8,582	19,281	2,578	8,483	**15%**	**30%**
March 2017	19,833	10,803	21,393	3,711	10,024	**19%**	**34%**
February 2018	27,071	19,671	20,818	**11,359**	11,189	**42%**	**58%**

Key: NP –Not Provided

Figure 4 Comparison of Delinquent Loans to Total Loan Portfolio and Loans in Repayment



Source: AuGD's analysis of SLB data

2.3 The continued high level of non-performing loans resulted in write-offs totalling $2.5 billion as at end-March 2017 (**Table 4**). SLB did not provide information on the value and number of accounts written off in financial year 2017-18, despite request.

Table 4 Amounts written-off 2013-2017

Financial Year End	Gross Loan Balance ($M)	Number of account	Write-Off ($M)	Number of accounts Written Off
March 2013	*NP*	*NP*	368	645
March 2014	13,850	12,924	586	986
March 2015	20,397	19,209	635	927
March 2016	26,200	19,281	896	996
March 2017	16,397	21,393	*NP*	*NP*
TOTALS	**76,844.00**	**72,807**	**2,485**	**3,554**

Source: AuGD compilation of SLB's data

2.4 Section 6 of the Write-Off Policy states that SLB should exhaust all due diligence activities (telephone, written communication, bailiff follow up, possible litigation involving beneficiaries and guarantors) before considering a loan unrecoverable and eligible for write -off. The basis on which loans should be written- off are indicated below:

- Loans with balances less than $1,000, for which efforts for collection far outweigh any potential benefits.
- Parties to the loan declared bankrupt.
- Loans that have matured and the underlying legal documentation is inadequate to support further collection efforts.
- Special cases illustrated in *Section 6.1* of policy, (parties to the loan agreement are deceased and loan not insured, parties disabled and loans deemed irrecoverable based on the assessment of the Manager and recommendation made to the LD for write-off).

2.5 However, we were unable to verify compliance with the Write-Off Policy as SLB did not disaggregate the write-off amounts by borrower, to allow for determination as to the basis for which each individual's loan account was written off. SLB continues to pursue recovery of loans written off as per its policy.

SLB increased its reliance on government subsidy

2.6 SLB has been unable to generate sufficient cash from its core lending operations, in order to fund its loan disbursement obligations. Consequently, SLB relied heavily on Government subsidy, multinational borrowing and encashment of investments to fund its activities. For instance, GOJ subsidy as a proportion of total loan disbursement rose to 91 per cent or $3.1 billion in 2016-17 from 13 per cent or $0.4 billion in 2012-13 (**Table 6, Appendix 1**). As a result of Government interventions, SLB's cash position improved from $234.6 million as at March 2013 to $2.1 billion as at March 2017 (**Table 5**).

Table 5 Cash Flow Performance

NET CASH FLOW FROM:	2012-13 $'000	2013-14 $'000	2014-15 $'000	2015-16 $'000	2016-17 $'000
Opening Balance	259,389	234,600	848,711	904,960	1,612,098
Operating Activities	441,726	254,063	420,633	648,347	1,203,112
Investing Activities	- 2,294,594	- 3,190,819	- 2,597,255	- 2,943,183	- 3,620,317
Financing Activities	1,828,079	3,490,828	2,216,615	2,986,270	2,935,256
Effect of exchange rate changes on cash and cash equivalents	-	60,040	16,256	15,704	15,059
Increase in Net Cash and Cash Equivalent	-24,789	554,071	277,190	691,434	518,051
Closing Cash Balance	234,600	848,711	904,960	1,612,098	2,145,208

Source: AuGD's analysis of SLB's data

2.7 SLB in its response dated May 2018, referred to a 2012 Consultant report, which stated:

"even if delinquency was reduced to zero the revolving fund would not be able to revolve and be self-sustaining". The consultant also reported that "in order to be sustainable an annual injection of funds is required to facilitate achieving its mission of a revolving loan fund".

Table 6 Relationship between GOJ Funding, loan disbursement and Repayment

DETAILS	*TOTAL (2013-2018) $'M*	2012-13 $'M	2013-14 $'M	2014-15 $'M	2015-16 $'M	2016-17 $'M	2017-18 $'M
Collections from Loan Repayments	*11,942*	964.00	1,270.00	1,803.06	2,254.66	2,445.68	3,204.75
Loan Disbursements	*17,024*	3,365.50	3,522.14	3,460.20	3,311.80	3,364.29	*NP*
Shortfall from Revolving Loan Fund		**(2,401.50)**	**(2,252.14)**	**(1,657.14)**	**(1,057.14)**	**(918.61)**	-
GOJ Funding :							
MoFPS - Education Tax	*11,749.88*	350.00	1,043.29	1,820.95	2,880.00	2,827.82	2,827.82
MoFPS - Grant-in-Aid[1]	*780.34*	100.00	115.34	115.00	150.00	150.00	150.00
Grant - Heart Trust/NTA	*350.00*	-	-	250.00	-	100.00	-
Total GOJ contribution	***12,880.22***	**450.00**	**1,158.63**	**2,185.95**	**3,030.00**	**3,077.82**	**2,977.82**
International Loan funding	*37.86*	22.55	15.31	-	-	-	-
TOTAL	*12,918.08*	**472.55**	**1,173.94**	**2,185.95**	**3,030.00**	**3,077.82**	**2,977.82**
Surplus/Deficit to funding requirements	*1,653.73*	(1,928.95)	(1,078.20)	528.81	1,972.86	2,159.21	-
GOJ's subsidy as a per cent of the total loan disbursement		***13.37%***	***32.90%***	***63.17%***	***91.49%***	***91.48%***	-

Source: AuGD's analysis of SLB's data

SLB withdrew $1.3 billion from the Insurance Fund and borrowed $4.8 billion to finance loan disbursements

2.8 Consequent on SLB's cash shortfall, MoFPS[13] approved the withdrawal of $1.3 billion from SLB's self-insurance fund, to assist in funding tuition loans in financial years 2011-12 and 2012-13. SLB developed the self-administered insurance scheme to mitigate the risk of loan loss in the event of permanent disability or death of the borrower. However, the withdrawal though approved, runs contrary to the purpose of the insurance fund.

2.9 SLB conducted an actuarial assessment of the Insurance Fund in 2015, which concluded that a maximum of $600 million is adequate to cover the risk of student loans. Subsequently, SLB's Board authorized the conversion of $1.3 billion from the insurance fund to equity, and withdrew $242.4 million, representing Fund surplus. During the period 2012-13 to 2016-17, total intake for the Fund amounted to $387.7 million and the total amount disbursed from the Fund to settle claims resulting from death or disability was $6.3 million. The unaudited balance as at March 31, 2017 was $880 million (**Table 7)**.

Table 7 Movements of funds in Self-Insurance Account between March 2013 and March 2016

PARTICULARS	2013	2014	2015	2016	TOTAL
Balance at the beginning of the year	1,614,922	1,736,528	1,841,196	1,986,863	
Premiums received	86,246	76,089	110,648	114,680	**387,663**
Interest earned on funds invested	37,313	28,985	37,638	42,103	**146,039**
Benefits paid	-1,953	-406	-2,619	-1,296	**-6,274**
Transfer of surplus to the Bureau-Insurance Fund	0	0	0	-242,350	**-242,350**
Loan from insurance fund converted to equity	0	0	0	-1,300,000	**-1,300,000**
TOTAL	**1,736,528**	**1,841,196**	**1,986,863**	**600,000**	

Source: AuGD's analysis of SLB's data

2.10 SLB obtained long-term loans from two lending agencies. These comprised Caribbean Development Bank (CDB)-funded loans totalling $4.8 billion and a PetroCaribe Development Fund (PCDF) loan of $1.46 billion as at March 31, 2016. The purpose of these funds was to assist in the provision of loans to qualified beneficiaries.

2.11 SLB's cash flow challenges highlights the need for a long-term strategy to fund tertiary education. However, our review of SLB's Corporate Plans showed no evidence of any medium to long-term plans and activities to identify other funding arrangements, including private sources in accordance with the roadmap for Vision 2030 NDP objective to "*use private finance as a conduit for*

[13]Letter of approval dated August 2012

investment in higher education through bond issuances, securitizations, private and public/private student loan programmes".

Monitoring loan collection and enforcement

2.12 We found that loans were fast becoming non-performing as evidenced by 62 per cent or $2.75 billion of loans due for initial repayment commencing January 2016, becoming non-performing within 12 months.

Repayment Start Date	# of Loans	Value of loans Due for repayment	No. of Loans Outstanding (180-425 days)	Value of Loans Outstanding (180-425 days)	No. Outstanding Loans as percentage of No. of loans in Repayment
January 2016	4,270	$4.13B	2,635	$2.75B	62%

2.13 As at March 2018, SLB's records showed that 9,671 accounts valued at $6.94 billion under management by SLB's Loan Servicing Department (LSD) were outstanding in excess of 365 days. SLB's policy stipulates that delinquent loans[14] should be transferred to the Legal Department (LD) for enforcement action after 365 days. Hence, SLB's failure to transfer loans to its Legal Department within the stipulated time not only breached the loan policy, but also limited the effectiveness of timely enforcement action to increase recovery of outstanding debt.

2.14 From a sample of 97 loan accounts, we found that SLB dispatched reminders and/or demand letters to these borrowers/guarantors, as required by the Loan Recovery Policy. However, 29 accounts were not transferred to SLB's Legal Department for periods ranging from 395 days to 3 years, which further highlights weaknesses in loan management.

2.15 SLB advised that,

"…there are accounts over 365 days past due which based on repayment arrangements entered into with the customer, continue to be serviced in the Loan Servicing Department. This normally results from:

1. *Some graduates do not find employment during the first year after graduation;*
2. *Some graduates are under employed and not earning sufficient income to make their full monthly payment;*

Also, there are accounts that have been transferred to the Legal Department but on the system they are still being reflected as being with the Loan Servicing Department, due to issues with the system. The developer, eGov. Ja. Ltd. is aware of this issue and is working to correct same."

2.16 SLB's collection and enforcement functions are shared between its Loans Servicing (LSD) and Legal (LD) departments, with loan servicing officers (LSOs) performing analysis of current and past-due portfolios, while the LD conducts legal proceedings and debt collections. SLB loan policy requires the LSD to send at least four reminders and demand letters, along with a statement of account, to borrowers and guarantors for amounts outstanding for one to five months respectively, leading up to one year

[14] Loans are considered delinquent when repayment is 90 days past due

(365 days). Thereafter, the delinquent loan account file is transferred to the LD for action **(Appendix 2 & Appendix 3)**.

2.17 SLB also engaged three private attorneys and 24 debt collectors/agencies[15] on a contractual basis. SLB paid the attorneys and debt collectors a percentage of amounts collected ranging from 15-24 per cent. SLB entered into a Memorandum of Understanding with Tax Administration Jamaica (TAJ) that allows access to information to enable identification of delinquent beneficiaries and their guarantors. Debt collectors were assigned 8,224 delinquent beneficiaries with balances totalling $7.95 billion as at April 2017, recovering $932 million or 94 per cent of the agreed performance target of $987 million **(Appendix 4)**.

SLB's strategy to address the delinquency among borrowers was weak

2.18 SLB recognised that repayment of loans is largely contingent on the borrowers completing their course of study and obtaining employment. SLB's annual report for fiscal year 2015-16 indicated that while loan repayments increased by $451.1 million (25.05 per cent), the delinquency rate remained relatively high and continued to be impacted by the inability of beneficiaries to find gainful employment upon graduation. In an effort to mitigate the credit risk of non-payment of student loan given that the loans are uncollaterised, SLB instituted a guarantor system to provide an additional layer of security in the event of default by the beneficiary[16.] However, SLB's guarantor system was only partially effective, collecting only $35.8 million from 96 guarantors over the period 2010-2017.

2.19 SLB identified unemployment, underemployment and migration as major causal factors of borrowers' delinquency, which SLB indicated was as high as 70 per cent for some groups. Given that labour market conditions are outside SLB's control, we expected SLB to adopt a robust system to ensure timely monitoring and intervention to minimize as far as possible, the rate of delinquency. However, we could not easily determine that their loan management plan was adequate to address these risk factors. However, SLB did not provide for review a disaggregation of its loan portfolio and associated risks, or indicate any customised strategies to address delinquency among specific groups. For example, review of SLB's Board Minutes indicated that a large percentage of nurses migrated within a short period after graduation[17], posing additional difficulty for SLB to collect.

2.20 In May 2018, SLB resubmitted to MoFPS, a proposal previously submitted in 2012, for the amendment of the Students' Loan Fund Act for garnishment of beneficiaries' income and assets. The current Act provides for Court action to recover non-performing loan amounts[18]. As at July 2018, SLB was awaiting MoFPS decision on the way forward. *Section 15* of the Students' Loan Fund Act provides for the recovery of debt and states "all debts due to the Bureau may be recovered, without limit of amount, in a Resident Magistrate's Court." In keeping with this provision, SLB's Legal Department (LD) reported that 98 court proceedings have been initiated by its three external lawyers, during the period

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[15] Attorneys were engaged on one-year contracts whereas debt collectors were contracted for one to two years

[16] The Guarantor is a person who by signing the Guarantee Agreement assumes a legal obligation to the SLB to repay any and all monies owed to the SLB by the student borrower in the event that the student borrower defaults on the loan

[17] SLB's Board Minutes dated January 27, 2016

[18] Section 15 of the Students Loan Fund Act stated that *"all debts due to the Bureau may be recovered, without limit of amount, in a Resident Magistrate's Court."*.

2015- 2017, to recover loans. However, SLB did not provide the value of the 98 claims, despite request (**Table 8**).

Table 8 Summary of Lawsuits filed as at September 2017

NAME[19]	NO. of Lawsuits	Judgements obtained	Accounts Closed	Pending Settlements	Out of Court Settlements	Other
Law Firm No. 1	42	16	10	14	-	2
Law Firm No. 2	42	16	5	10	6	5
Law Firm No. 3	14	1	1	12	-	-
Total	**98**	**33**	**16**	**36**	**6**	**7**

Source: AuGD's analysis of SLB's data

Loan Management System (LMS)

2.21 SLB signed an agreement with eGov Jamaica Limited for the development and implementation of a three-phased Loan Management System (LMS) software at a contract sum of US$873,500 and a duration of 20 months. However, SLB reported that due to the occurrence of errors at phase one, a decision was made not to continue with phases two and three (**Appendix 5**). As far back as 2012, SLB experienced various system issues with its LMS software, which created significant risks relating to the efficiency and effectiveness of its loan management. Many features of the LMS were either non-functional or not utilized, resulting in the need for extensive manual reconciliation with other internal electronic platforms[20] to verify loan balances **(Appendices 5 & 6)**. Accordingly, SLB did not obtain full value for $57.1 million paid to the suppler for the LMS software. SLB indicated:

"the system is configured to provide loan balances. However, the developers are working to address the system issues that contribute to 15% of loan accounts requiring verification checks to ensure accuracy of balances".

We also identified delays in the updating of beneficiary loan accounts and the identification of non-recoverable loans. Whereas beneficiaries' loan accounts are immediately, updated when payments made through SLB's in-house cashier, there is a lag period for up to five months for electronic payments through designated banks, third party multi-payment agencies and salary deduction.

SLB has been slow in implementing risk management mechanisms

2.22 SLB employed a risk manager in 2016 to assist with production and implementation of a risk management policy and procedural guidelines. In addition to providing effective oversight and monitoring mechanism, the risk manager is required to ensure identifiable risks are managed and remedial action undertaken in a timely basis. SLB's 2017-18 Operational Plan required the production of nine Risk Reports and the development of the Risk Management Framework to strengthen the risk

[19] Name of Law firms redacted
[20] Data from FourGen, intranet and MS Excel spreadsheets

management capabilities of the SLB. In 2017, the Risk Manager developed a draft Enterprise-wide Risk Management (ERM) Framework, which was submitted to the Finance Committee for review and approval in February 2018. At the time of audit, nine risk reports and finalization of the draft ERM Framework remained outstanding. A formal risk management framework would have enabled SLB to determine the material risks associated with its current operations and inform its core business decisions.

Appendices

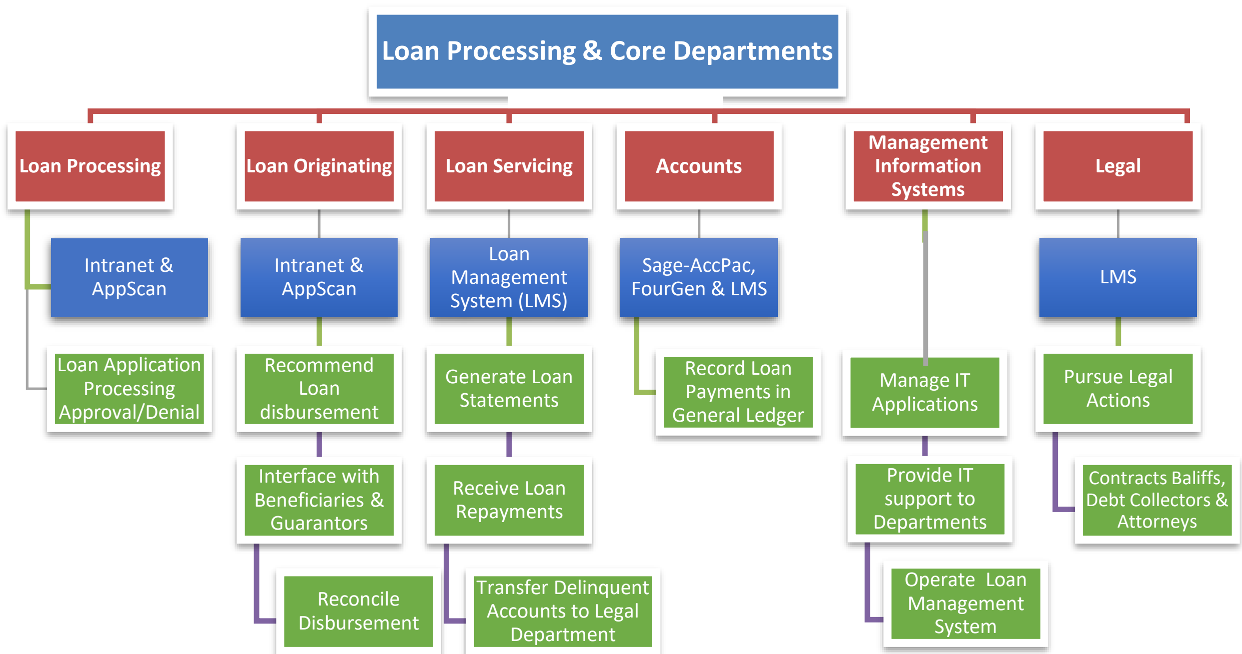
Appendix 1: Details of Capital injection

EXTERNAL INCOME/FUNDING	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	TOTAL RECEIVED 2013-18
GOVERNMENT OF JAMAICA							
Grant-in-Aid	150,000,000.00	150,000,000.00	150,000,000.00	115,000,000.00	115,340,000.00	100,000,000.00	**780,340,000.00**
One-off Budget Support	-	-	-	-	-	350,000,000.00	**350,000,000.00**
Ed Tax Receipts	2,827,823,000.00	2,827,823,000.00	2,880,000,000.00	1,820,947,999.42	1,043,285,509.70	-	**11,399,879,509.12**
HEART Trust	-	100,000,000.00	-	250,000,000.00	-	-	**350,000,000.00**
Sub-total	**2,977,823,000.00**	**3,077,823,000.00**	**3,030,000,000.00**	**2,185,947,999.42**	**1,158,625,509.70**	**450,000,000.00**	**12,880,219,509.12**
INTERNATIONAL LOANS & GRANTS							
Caribbean Development Bank (CDB)	LOAN 1	-	-	-	1,908,780.82	2,484,177.31	4,392,958.13
	-	-	-	-	636,260.27	828,059.11	1,464,319.38
	-	**-**	**-**	**-**	**2,545,041.09**	**3,312,236.42**	**5,857,277.51**
	LOAN 2	-	-	-	10,000,000.00	-	10,000,000.00
	-	-	-	-	10,000,000.00	-	10,000,000.00
	-	**-**	**-**	**-**	**20,000,000.00**	**-**	**20,000,000.00**
Sub-total	**-**	**-**	**-**	**-**	**22,545,041.09**	**3,312,236.42**	**25,857,277.51**
Petro-Caribe	-	-	-	-	-	5,000,000.00	5,000,000.00
	-	-	-	-	-	7,000,000.00	7,000,000.00
Sub-total	**-**	**-**	**-**	**-**	**-**	**12,000,000.00**	**12,000,000.00**
TOTAL INTERNATIONAL	**-**	**-**	**-**	**-**	**22,545,041.09**	**15,312,236.42**	**37,857,277.51**
TOTAL EXTERNAL	**2,977,823,000.00**	**3,077,823,000.00**	**3,030,000,000.00**	**2,185,947,999.42**	**1,181,170,550.79**	**465,312,236.42**	**12,918,076,786.63**

Appendix 2: Collection Policy

DEPARTMENT	PERIOD OF ARREARS	SLB POLICY REQUIREMENT
Loan Servicing Department (LSD)	30 days	Notice of Default to be sent on accounts in arrears.
	60 days	(1st) Formal Demand Letter, to be sent on account in arrears and copied to Guarantors
	90 days	(2nd) Formal Demand Letter, to be sent on account in arrears together with 2nd Demand Letter to Guarantor
	> 90 days	3rd notice – Formal Demand Letter, to be sent on account in arrears and copied to Guarantors
	5 months	4th notice – Formal Demand Letter, to be sent on account in arrears and copied to Guarantors
	365 days	Loans are assessed by the Loan Servicing Manager and sent to the Legal Department for legal action
Legal Department (LD)		Accounts assessed for referral to either the Legal or Bailiff sections.
		Checklist completed to ascertain if, notices and formal demand letters were sent to the parties, the date of last contact and the general status of the account
		Contacts are made via the telephone and or by email to all parties to the contract
		If parties fail to adhere to stipulated deadline, a demand letter is sent to all parties giving fourteen days (14) days from the date of the said letter within which to liquidate the debt
		If after the fourteen (14) days have elapsed and there is no favorable arrangement, the originating documents for court proceeding are completed and are sent to the Resident Magistrate (RM) Court
		Legal proceedings initiated by two (2) methods: (1) Under section 146 of the RM Court Act (in chambers) (2) Open Court

Appendix 3: SLB Departments and Systems Involved in Loan Management



Appendix 4: Performance of Debt collectors

EXTERNAL DEBT Collectors and Attorneys	Commission Percentage per Month	Commission paid April 2017- March 2018 ($)	Agreed Performance Targets	No. of Accounts managed	Value ($) of Accounts managed	Amounts ($) collected per year (Actual Performance)	Under or Over performance
1	20%	5,293,174.70	31,506,373.03	218	211,727,584.46	30,166,157.19	Under
2	20%	4,811,723.46	40,185,631.57	263	280,587,173.57	25,276,062.54	Under
3	20%	4,288,533.23	41,568,258.42	281	273,459,274.61	23,714,734.05	Under
4	20%	23,919,050.48	96,123,119.25	881	692,802,587.39	145,906,680.66	Over
5	24%	8,236,943.67	47,725,468.12	270	379,927,803.73	39,943,147.28	Under
6	20%	6,666,411.90	50,561,059.86	390	386,290,424.18	37,556,998.92	Under
7	23%	13,412,048.32	62,115,048.78	719	650,447,460.12	66,815,917.86	Over
8	20%	4,543,443.17	27,818,325.49	192	178,585,451.18	24,629,543.46	Under
9	24%	8,444,108.43	36,548,708.94	278	278,102,746.48	40,050,723.61	Over
10	24%	3,187,974.89	19,654,812.43	182	186,820,628.48	13,992,877.32	Under
11	24%	18,971,781.96	79,020,564.30	689	562,831,887.11	91,232,465.38	Over
12	22%	13,006,352.45	39,304,831.24	530	565,572,307.12	63,046,149.43	Over
Totals		**114,781,546.66**	**572,132,201.43**	**4,893**	**4,647,155,328.43**	**602,331,457.70**	
INTERNAL DEBT Collectors and Attorneys	**Commission Percentage per Month**	**Commission paid April 2017- March 2018 ($)**	**Agreed Performance Targets**	**No. of Accounts managed**	**Value ($) of Accounts managed**	**Amounts ($) collected per year (Actual Performance)**	**Under or Over performance**
1	15%	2,746,947.32	20,154,232.32	207	198,036,283.22	29,375,773.62	Over
2	15%	1,745,250.82	46,761,308.29	311	288,355,891.29	21,721,567.64	Under
3	15%	1,848,550.23	31,633,492.64	243	223,828,135.77	19,142,780.88	Under
4	15%	1,416,580.24	35,902,077.03	264	260,203,205.89	16,466,211.94	Under
5	15%	1,563,534.08	39,171,171.89	271	246,686,476.94	19,215,395.48	Under
6	15%	2,231,453.89	37,579,919.74	267	271,048,205.76	25,680,914.71	Under
7	15%	1,230,865.18	19,702,468.46	114	95,894,076.03	18,050,440.61	Under
8	15%	2,321,956.29	25,908,782.58	208	207,386,971.36	25,209,162.33	Under
9	15%	796,497.14	19,132,120.65	210	210,580,413.97	13,731,947.46	Under
10	15%	1,759,163.73	27,397,537.77	217	236,640,685.14	20,487,706.45	Under
11	15%	4,186,359.00	31,240,033.43	253	270,745,856.86	43,905,963.65	Over
12	15%	1,484,402.77	22,882,727.54	200	214,795,864.53	18,816,262.83	Under
13	15%	1,400,695.52	20,401,443.81	186	193,045,961.09	20,618,896.71	Over
14	15%	1,465,293.77	18,024,158.27	189	188,553,327.43	22,044,423.82	Over
15	15%	1,132,826.95	18,870,760.92	191	197,696,216.83	15,465,207.44	Under
Totals		**27,330,376.93**	**414,762,235.34**	**3,331.00**	**3,303,497,572.11**	**329,932,655.57**	
Grand total		**142,111,923.59**	**986,894,436.77**	**8,224.00**	**7,950,652,900.54**	**932,264,113.27**	

Appendix 5: LMS Issues

Poor interfacing of data mangement systems

- Poor interfacing of SLB's current five systems, along with inefficiencies of the LMS, resulted in SLB's staff being faced with major challenges to obtain information pertaining to loan disbursements, loan statistics, and loan status. For instance, in an effort to provide the auditor with the current loan balance of a beneficiary, an officer had to reconcile information recorded on FourGen, LMS, the intranet and Excel spreadsheets; a process, which took between 35-45 minutes. The figures arrived at, had to then be vetted/certified correct by another officer.

LMS in implementation Phase since 2012

- The LMS, developed in 2006, has been in implementation since 2012.
- SLB conducted a series of User Acceptance Tests (UAT) prior to 'go live' in 2012. This was necessary as the model was developed in phases and each new release would require a UAT.
- In 2016-2017, SLB conducted a sample UAT, to incorporate the change to interest rate methodology, which affects all modules of the system necessitating a full redesigning of the system: this report indicated an approximated failure rate of 36 per cent for the RBM.

SLB expended approximately $57 million to implement LMS

- On March 23, 2006 SLB entered into agreement with eGov Jamaica Limited (eGov) for the development and Implementation of a three-phased LMS at a contract price of US$873,500 and a duration of 20 months.
- SLB advised that due to errors occurring at phase one, an administrative decision was taken not to continue with phases two and three. Due to deficiencies in SLB's account record keeping (Example, missing details and account numbers not properly displayed), we could not determine amounts expended in an attempt to fix the flaws identified. Notwithstanding, we identified a sum of approximately $57.1 million paid for the LMS implementation, of which $45 million went to eGov.

Appendix 6 SLB's Internal and External Reports - MIS

SLB Internal Audit Unit

- **Internal Audit Report April 15 2012:** Departments are unable to produce their own system generated reports, thus resulting in heavy reliance on the MIS Department)
- **IA Memo d/d April 15 2012 to Management:** Non-connectivity, non-automation of processes and dependency on the MISD for critical data for reporting

SLB External Auditor- EY

- **2012-13 Management Letter - IT Manager involvement in core business**: The Information System Manager is not independent of the accounting process as it relates to the reconciliation of the loans sub-ledger. The IT Manager is a super user with administrative rights and the possibility exist that unauthorized changes may go undetected.
- **2013-14 Management Letter - There should be segregation of duties between accounts and IT duties**: The Information System Manager is not independent of the accounting process as it relates to the reconciliation of the loans sub-ledger.)

Private Consultant Ltd.

- **Draft Report d/d January 2015:** Dependency on MIS must be reduced by automation of the loan analysis process.
- Users must have capability to generate reports and communication to customers without relying on MIS

Source: AuGD's compilation from SLB records