



**SUBMISSION TO PARLIAMENT'S PORTFOLIO COMMITTEE ON THE HIGHER
EDUCATION & TRAINING (NATIONAL ASSEMBLY)
on the
PROCESSING AND USE OF STUDENT ALLOWANCES
13 September 2017**

1 INTRODUCTION

Parliament's Portfolio Committee on Higher Education and Training (National Assembly) invited Walter Sisulu University (WSU) to present to it information on the following issues relating to the irregular payment of approximately R14 million to a student at the University who was funded by the National Student Financial Aid Scheme (NSFAS):

- The relationship between the University and IntelliMali (Pty) Ltd;
- Any investigation into the payment into the student account;
- Preventative measures put in place to prevent such payment from recurring in future; and
- The reasons for employing a service provider and the related costs.

2 CONTEXT

Walter Sisulu University (WSU) has four campuses in Butterworth, East London (Buffalo City), Mthatha and Queenstown (Komani) and is located in an area with a 600 km radius spanning four district municipalities and six Kingdoms. The University has 30 618 registered students – 1904 postgraduates and 28 714 undergraduates. Of the undergraduate students, 18 144 (63,2%) are eligible for NSFAS funding while 17 410 (60,6%) receive NSFAS funding.

The University was established in July 2005 following a merger of three institutions, the Border Technikon, the East Cape Technikon and the University of the Transkei. It is governed by the Institutional Statute of Walter Sisulu University.¹ The Institutional Statute aims to provide a governance and management model for "a unitary, comprehensive, geographically dispersed multi-campus institution" through an appropriate divisional management system. In terms of

¹ Government Notice No. 13, Government Gazette No. 37235, 17 January 2014.

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this model, a single Vice-Chancellor is assisted by institutional managers and four Campus Rectors, one for each campus. The intention is to devolve as much administration as possible to campus management, although institutional managers may also perform managerial and administrative functions at institutional level.

3 THE PROCESS FOR DISTRIBUTING NSFAS FUNDS

The process for distributing NSFAS funds² (applicable to all universities) may be summarised as follows:

- Students apply for funding and NSFAS enter into a loan agreement with those who qualify.
- In terms of the loan agreement, a student beneficiary receives financial assistance in respect of academic fees, accommodation, the purchase of books and specified living expenses.
- NSFAS pays over money to the University in lump-sum tranches.
- The university disburses the money.
- The university then accounts to NSFAS in respect of the disbursement.

4 WSU, INTELLIMALI (PTY) LTD AND SUPPLIERS OF GOODS

IntelliMali (Pty) Ltd is a commercial entity (private company) which is in the business of administering allowances to students. The contractual relationship between WSU and IntelliMali is that of principal and agent: IntelliMali administers NSFAS (and other funds, e.g. Funza Lushaka allocations) on the University's behalf. The University, its office-bearers and/or its employees have no additional relationships with the company.

The following information is relevant:

WSU and IntelliMali

- (a) WSU is among nine universities who have contracted IntelliMali (Pty) Ltd, a specialist service provider, to administer student allowances on its behalf.
- (b) Prior to 2010 the processing of NSFAS funds was done internally and for historical reasons, different procedures applied to each campus. The system was fraught with risk and around 2009 substantial overpayments were discovered as a result of collusion between students and a merchant/vendor.
- (c) At the time IntelliMali was providing services to the University of Fort Hare and the WSU Management then sought to implement a similar arrangement at WSU. The

² NSFAS also administers other funds, for example from Funza Lushaka.

relationship with IntelliMali started in June 2010 with a signed Memorandum of Agreement.³

- (d) In January 2013 the then University Administrator and his team confirmed the IntelliMali arrangement and the relationship continued.

WSU, IntelliMali and vendors

- (e) WSU has no contractual relationship with vendors from whom students purchase goods.
- (f) The University's role is to identify vendors who are able to supply students with items for daily living and provides IntelliMali with a vendor list.
- (g) WSU identifies vendors, firstly, from major retailers operating in or close to areas in which students live. In order to ensure that monies are not only paid over to large national suppliers, the University also selects smaller vendors who are known in the community to be credible merchants. Often this is done at the request of the Student Representative Committee (SRC), to ensure that students are not unduly inconvenienced by having to travel to obtain their household necessities.
- (h) On receipt of the vendor list, or a request to add a vendor to the list, IntelliMali updates its supplier data base and enters into a contractual relationship with individual vendors.
- (i) Should a reason arise for terminating a vendor's involvement in the purchase and disbursement of allowances, IntelliMali is the appropriate entity to do so.

Funding of services and cost to WSU, students, and/or NSFAS

- (j) IntelliMali's income is obtained via commissions paid to it by vendors.
- (k) Neither the University nor any individual student pays for the IntelliMali's services. Students also pay the same advertised price for the goods and services as other shoppers do.
- (l) No NSFAS money, nor any other public money, is used to finance IntelliMali's operations.

5 WSU DISBURSEMENT PROCESSES

The manner in which WSU disburses money allocated to it by NSFAS is as follows:

- (a) WSU pays suppliers of accommodation and transport direct.
- (b) WSU does not have internal capacity to administer, disburse and monitor payments to approximately 18 000 NSFAS funded students and therefore contracted IntelliMali to do so on its behalf. (WSU's Financial Aid Office does however administer bursary funds from other donors).

³ Although the original agreement was signed with IntelliCard (Pty) Ltd, the company's name was subsequently changed to IntelliMali (Pty) and for purposes of this submission we will refer to it as IntelliMali.

- (c) WSU prepares a list of students entitled to food allowances (as confirmed by NSFAS), indicating the amounts to be allocated, and sends this list to IntelliMali. The amount for NSFAS students is R1 400 per student per month, but for other bursary-funded students the amounts could vary, according to bursary stipulations.
- (d) IntelliMali provides a debit card (IntelliCard) to each student onto which the monthly allowance is loaded. The student can then present the IntelliCard to approved vendors to pay for items purchased, much in the same way as other shoppers use credit, debit or shopper cards.
- (e) Vendors submit invoices to IntelliMali for payment.
- (f) On a monthly basis, IntelliMali provides WSU with the list of students and monies disbursed to them.
- (g) Students may only buy goods and services on the NSFAS-approved list. Items such as liquor, cigarettes, cell phones, cosmetics are prohibited. Where appropriate, IntelliMali also provides WSU with a list of students who purchased prohibited items.
- (h) WSU then reconciles the IntelliMali documents with its own records.
- (i) Previously reconciliations were done at campus level. However, as from June 2017, to strengthen controls and to enhance efficiencies, the University centralised this process.
- (j) Up to the middle of August 2017 reconciliation was done on a monthly basis, but, again to strengthen internal controls, reconciliation is done weekly.
- (k) Monitoring student spending patterns (including the identification of prohibited expenditure) is part of the reconciliation process. This process is also being conducted weekly as from mid-August 2017.
- (l) WSU transfers tranches of money (received from NSFAS) to IntelliMali, as per the reconciled statement, so that the disbursements can be effected.
- (m) No cash is paid over to IntelliMali, a student, or a vendor.
- (n) WSU accounts to NSFAS by completing registration templates for every qualifying student. This template reflects the student's meal allowance, book allowance, residence and tuition and registration fees.
- (o) NSFAS uses these templates to generate Loan Agreement Forms (LAF's) to be signed by each student for the total funds allocated by NSFAS.
- (p) NSFAS reimburses WSU after the students have signed the loan agreement forms.

6 MS MANI AND THE R14 140 000

6.1 Processes followed associated with this incident

- (a) Ms Mani, who hails from Queenstown, is a student in Accountancy at the Buffalo City Campus in East London. She applied for NSFAS funding and this was duly approved.
- (b) NSFAS students qualify for a monthly food allowance of R1 400 for ten months of the year (totalling R14 000) together with a book allowance of R2 000.
- (c) At the end of March 2017 WSU prepared a schedule (Excel spreadsheet) to cover three months' food allowance (R4 200 per student) and submitted the schedule to IntelliMali.

- (d) IntelliMali duly processed this amount onto the students' IntelliCard in April 2017.
- (e) At the end of May 2017 WSU used the same Excel spreadsheet to upload a further allowance of R1 400 per student. The total amount allocated to an individual student in respect of meal allowances therefore amounted to R5 600 for the first four months up to the end of May 2017 (Feb to May).
- (f) WSU records indicate that the spreadsheet details sent from WSU to IntelliMali up to the end of May 2017 correctly indicated allowances of R1 400 per student; and in particular, R1 400 for Ms Mani.
- (g) IntelliMali used the WSU spreadsheet to upload these allowances onto the respective students' IntelliCard to allow students to purchase groceries from the vendors.
- (h) Our understanding is that when the Excel file was uploaded and executed onto the IntelliMali system on 1 June 2017 the amount for Ms Mani was changed from R1 400 (one thousand four hundred rand) to R14 140 000 (fourteen million one hundred and forty thousand rand). No other amounts had been changed.
- (i) The file which was uploaded and executed was correct for all the other students, except for Ms Mani, and these funds were loaded onto the students' IntelliCard on 1 June 2017.

Summary of uploads:

	30 April	31 May	Total uploaded as at 1 June 2017
Ms Mani	R4 200	R14 140 000	R14 144 200
Other students	R4 200	R1 400	R 5 600
Monthly allowance	(February, March, April)	(May)	(Feb to May 2017)

6.2 The irregular activity and the immediate response thereto

- (a) Ms Mani started spending her May 2017 allowance (which was uploaded on 1 June 2017) on her IntelliCard as from 1 June 2017. Information available to us show that she spent R21 247.51 on that day. It therefore appears that Ms Mani had been aware from 1 June 2017 that an incorrect amount had been loaded onto her card.
- (b) Ms Mani never came forward to inform WSU officials that an allowance of R14 140 000 instead of R1 400 had been loaded onto her IntelliCard.
- (c) Ms Mani's spending spree from 1 June 2017 to 13 August 2017 amounted to R826 872.43 over a period of 73 days at an average of R11 327 per day. The details

of the transactions on Ms Mani's IntelliCard are at present subject to a forensic audit and criminal investigation. We do not wish to jeopardise these processes through premature disclosure of further information.

- (d) Contrary to reports, WSU Officials discovered the irregular transactions on Ms Mali's account during the reconciliation process and they alerted IntelliMali on 12 August 2017.
- (e) IntelliMali suspended Ms Mani's IntelliCard on 14 August 2017
- (f) WSU officials had formal discussions with representatives of IntelliMali on Wednesday 30 August 2017.
- (g) IntelliMali refunded WSU the amount of R818 469.20 on 31 August 2017 in respect of the irregular purchases made in excess of the allowance Ms Mani was entitled to.
- (h) WSU and NSFAS have not suffered financial loss as a result of Ms Mani's conduct, but both institutions have received a huge amount of negative publicity.
- (i) IntelliMali has instituted criminal action against Ms Mani and we understand that it will also institute processes to recover the funds.
- (j) WSU will not institute separate investigations into this matter. The University's view is that the investigations already instituted are better suited to discovering the full facts surrounding this incident and instead WSU should lend its full support to such investigations.

6.3 WSU and Ms Mani

- (a) While WSU does not condone Ms Mani's behaviour in any way, the University has to date not instituted any disciplinary action against her. The University prefers to wait for the investigations to be completed, at which time a considered stance will be taken regarding the matter.
- (b) Ms Mani remains a WSU student and the University is concerned about the effect of this incident on Ms Mani. From her perspective, her life has spiraled out of control and WSU has therefore provided counselling to her in order the help her cope with the serious impact on her studies and her life.

6.4 Systems control measures

- (a) From 2010 to June 2017 the University had no cause to suspect that WSU and IntelliCard processes would fail to pick up irregular allocations of this nature. IntelliCard conducted reconciliations and submitted statements and WSU verified these statements independently. Records also show that expenditure on prohibited items

had been identified through this process and all indications were that control measures were sufficient.

- (b) Nonetheless, WSU recently felt that its own processes could be improved and prior to the discovery of this irregular expenditure, in May 2017, WSU had changed its control systems. Previously reconciliations were done at campus level (as per the divisional model) but as from June 2017 the process was centralized and transferred to institutional level.
- (c) Partly as a result of the change in system, both the June 2017 and July 2017 records were checked at the beginning of August 2017; hence the discovery of this fraud on 12 August 2017.
- (d) Preliminary internal investigations to date indicate that there has not been a breach of WSU systems and processes and that the integrity of WSU spreadsheets remained intact. To date there has also not been any indication of possible foul play on the part of WSU staff.
- (e) The incident has sparked WSU to consider further control measures. WSU and IntelliMali reports are now reconciled and monitored more regularly – on a weekly basis instead of monthly.
- (f) Student spending reports are similarly reviewed on a weekly basis as from now to detect unusual amounts and prohibited expenditure.

7 CONCLUDING REMARKS

In sum, WSU's response to the Portfolio Committee's areas of concern is:

- The relationship between the University and IntelliMali is contractual, and specifically that of principal and agent, in terms of which IntelliMali administers NSFAS allowances to students on the University's behalf.
- IntelliMali has commissioned an independent forensic investigation into the irregular payment and has also preferred criminal charges. WSU is not instituting any separate investigation, preferring instead to support the investigations that are currently being undertaken.
- WSU has centralised its monitoring processes and will in future conduct its reconciliations weekly instead of monthly. Irregular transactions should therefore be picked up sooner than in the past.
- The reason for employing a service provider was WSU's inability to administer a large number of allocations to students and monitor their transactions. The employment of a specialised service provider was intended to minimize a major institutional risk.
- IntelliMali's services come at no cost to NSFAS, WSU or individual students. The company's income is generated through vendors paying IntelliMali a commission.



WSU believes that the procurement of IntelliMail's services remains, for the time being, the best way in which WSU can administer the disbursement of NSFAS funds to students. The University is not a financial institution and does not have the staffing or systems capacity to do such work. The risks associated with the internal administration of the funds far outweigh those associated with employing a specialist service provider. WSU is also satisfied with the internal risk mitigation measures that are in place.

While we accept that the two investigations currently underway are likely to uncover additional information, on the facts currently available to us, WSU is satisfied that the integrity of its systems was not breached and there is no indication of a breach of a duty on the part of any of its employees.

It is unfortunate that the University has been drawn into this saga. Nonetheless, WSU gives the Portfolio Committee and the South African public the assurance that it is fully committed to sound financial practices and to assist with uncovering the true story behind this unfortunate series of events.



Prof J R Midgley
Vice-Chancellor and Principal

12 September 2017