

Single Audit Reports

**OKLAHOMA STUDENT
LOAN AUTHORITY**

June 30, 2012

OKLAHOMA STUDENT LOAN AUTHORITY

June 30, 2012

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program, and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Federal Expenditures and Award 1

Schedule of Expenditures of Federal Awards 4

Notes to Schedule of Expenditures of Federal Awards 5

Schedule of Findings and Questioned Costs 7

Summary Schedule of Prior Audit Findings 13

Exhibit A - Corrective Action Plan

Independent Auditors' Report on Compliance
with Requirements That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance in Accordance
With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

Board of Trustees
Oklahoma Student Loan Authority

Compliance

We have audited the compliance of Oklahoma Student Loan Authority (the "Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2012. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2012. However, the results of our auditing procedures disclosed three instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2012-01, 2012-02, and 2012-03.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information of the Board of Trustees, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
February 27, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2012

<u>Federal agency/Program title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education		
Federal Family Education Loan Program - interest supplements and special allowance payments	84.032	<u>\$ (10,553,636)</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STUDENT LOAN AUTHORITY

June 30, 2012

NOTE A--NATURE OF PROGRAM

The Oklahoma Student Loan Authority (the Authority) was created as an express trust under applicable Oklahoma Statutes and a Trust Indenture dated August 2, 1972 with the State of Oklahoma (the State) accepting the beneficial interest therein. The Authority is a component unit of the State and is included in the financial statements of the State as a part of the Enterprise Fund. Enterprise funds are used to account for the operations and financial position of governmental entities that are financed and operated in a manner similar to private enterprise.

The purpose of the Authority is to provide loan funds to qualified persons at participating postsecondary educational institutions. The Authority also performs originations and servicing for other Federal Family Education Loan (FFEL) Program lenders in addition to providing a secondary market for FFEL Program loans for participating financial institutions. The student loans held by the Authority under the Federal Higher Education Act of 1965, as amended, include Federal Stafford (Stafford) Loans, Unsubsidized Stafford Loans for Middle Income Borrowers (Unsubsidized Stafford), Federal Supplemental Loans for Students (SLS), Federal PLUS Loans for Parents (PLUS), Federal PLUS Loans for Graduate or Professional Students (GRAD) and Federal Consolidation Loans (Consolidation).

The FFEL Program loans are guaranteed at 98% or 97% (97% for loans first disbursed on or after July 1, 2006) by the Oklahoma State Regents for Higher Education Guaranteed Student Loan Program (State Guarantee Agency), which is reinsured by the United States Department of Education (the USDE), or guaranteed by other guarantors approved by the USDE (Guarantee Agencies).

The accompanying schedule of expenditures of federal awards presents the interest subsidies and special allowance payments, net of any negative special allowance payments to the USDE, related to the FFEL Program for the year ended June 30, 2012 as follows:

Interest subsidies	\$ 5,358,137
Negative special allowance payments, net	<u>(15,911,773)</u>
	<u>\$ (10,553,636)</u>

All federal awards received directly from federal agencies are included on the schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

June 30, 2012

NOTE B--BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. It is the Authority's policy that receipts of interest subsidies and special allowance payments are expended for debt service on a first-in, first-out basis.

NOTE C--RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule may differ from amounts requested by the Authority for the FFEL Program due to the U.S. Government agency's discretionary authority to reduce interest subsidies, special allowance payments or a combination of both by an amount equal to loan origination fees or lender's fees. Additionally, the amount of special allowance payments is determined by a U.S. Government agency using information provided by the Authority; consequently, the amounts are not calculated by the Authority.

NOTE D--FEDERAL EXPENDITURES

Due to the nature of the federal awards for the fiscal year ended June 30, 2012, no specific expenditures were made by the FFEL Program; receipts represent subsidies from a U.S. Government agency. Such programs are described in the notes to the basic financial statements. The federal awards received in the major program are interest subsidies and special allowance payments. During the fiscal year ended June 30, 2012, negative special allowance payments (approximately \$15,912,000, net) were paid to the USDE as a result of quarterly special allowance rates being less than stated interest rates for certain loans.

As of June 30, 2012, approximately \$745,505,000 of the Authority's outstanding loans were guaranteed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2012

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Identification of major programs:

Program

CFDA Number

Federal Family Education Loans

84.032

Dollar threshold used to distinguish between type A and type B programs: \$316,609

Auditee qualified as low-risk auditee?

yes no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2012

Section II--Findings Required to be Reported in Accordance with *Government Auditing Standards*:

None to report for the June 30, 2012 period.

Section III--Finding Required to be Reported in Accordance with OMB Circular A-133:

See Findings 2012-01, 2012-02, and 2012-03.

Prior Audit Findings

No matters were reportable.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2012

FINDING 2012-01

Condition:

During our testing to verify that all required records have been maintained by OSLA for loans which it services, we noted one document was not properly maintained. Specifically, it was noted that a copy of the signed promissory note was not maintained for one loan in our audit sample of 60 loans which is the required sample size prescribed by Section 3 of the *Lender Servicer Financial Statement Audit and Compliance Attestation Guide*. Our sample of 60 was randomly selected from the universe of 16,396 loans serviced by OSLA as of May 31, 2012.

Criteria:

A lender is required to maintain current, complete, and accurate records of each loan that it holds. Along with other documents, a copy of the signed promissory note and documentation of the master promissory note confirmation process are specifically required by federal regulations to be maintained.

Effect of the Condition:

Missing documents could expose OSLA to a lack of recourse for the loan. Also, loan records collectively form the basis for the information contained in the quarterly Lender's Interest and Special Allowance Request and Report (LaRS). Missing documents increase the risk for inaccurate information reported on the quarterly LaRS.

Cause of the Condition:

The loan without the signed promissory note was originated by a lender other than OSLA prior to OSLA beginning to service the loans. OSLA has indicated that it did not receive the documents from the original lender. Therefore, OSLA did not perform procedures upon commencement of the loans being serviced by OSLA to ensure that it received all documentation required by federal regulations.

Recommendation:

We recommend that OSLA ensure that procedures are in place to verify that it has received all records required by federal regulations for loans as they are received by OSLA for servicing. Completing a checklist containing all required documents to be maintained with each borrower's loan records would be beneficial in ensuring that a review of loan records is performed for all loans as they are received by OSLA for servicing. Federal regulations state that indemnification agreements signed by the lender will be accepted in certain circumstances involving missing documents. However, these indemnification agreements do not satisfy the requirement to maintain current, complete, and accurate records and do not eliminate the risk of loss if a loan for which documentation has not been properly maintained is contested. Therefore, it should be included in the procedures to verify all records are received from the original servicer that indemnification agreements from the original servicer are obtained if any documents are identified as missing.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2012

FINDING 2012-02

Condition:

For several separate lender identification numbers, it was noted that the quarterly Lender's Interest and Special Allowance Request and Report (LaRS) was not filed within the required 90 days after the end of the quarter for the second, third, and fourth quarters of the fiscal year ended June 30, 2012. Specifically, the quarterly LaRS was not filed within the required time limit as follows:

OSLA Lender Held Loans - one lender identification number for the quarter ending December 31, 2011, two lender identification numbers for the quarter ending March 31, 2012, and one lender identification number for the quarter ending June 30, 2012 was not filed timely.

OSLA Servicer Loans - one lender identification number in each of the quarters ended December 31, 2011, March 31, 2012 and June 30, 2012 was not filed timely.

Criteria:

To be considered timely the quarterly LaRS must be submitted to the Department of Education within 90 days after the end of each quarter to be considered timely.

Effect of the Condition:

Not timely filing the quarterly LaRS may result in fees or other penalties assessed by the Department of Education. The Department of Education did not assess any fees or other penalties for any of the late filings during the fiscal year ended June 30, 2012.

Cause of the Condition:

During the fiscal year ended June 30, 2012, the Authority was in the process of obtaining a contract with the Department of Education to become a Not-for-Profit (NFP) Servicer to service federally held student loans. The number of personnel employed by the Authority during the year was not sufficient to meet all required deadlines associated with obtaining the NFP Servicer contract and timely submit each of its quarterly LaRS.

Recommendation:

We recommend that the Authority regularly assess the sufficiency of its staff. A more in depth assessment should be performed when situations arise that will involve labor intensive procedures and strict deadlines such as the process of obtaining the contract to become a NFP Servicer.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2012

FINDING 2012-03

Condition:

During our testing of loan sales, purchases, and transfers between eligible lenders, we noted three loans for one borrower that were entered into the Authority's loan servicing system for incorrect amounts upon being repurchased from the guarantor. The total amount added to the loan servicing system for the three loans was \$12,703 which was \$173 larger than the total amount that should have been added of \$12,530. We tested a sample of 60 loans which is the required sample size prescribed by Section 3 of the *Lender Compliance Attestation Engagement Guide*. Our sample of 60 was randomly selected from the universe of 1,457 loans included in seven sales, purchases, and transfers during the fiscal year ended June 30, 2012 that were selected using monetary sampling.

Criteria:

A lender must exercise due care to ensure that loan sales, purchases, and transfers are handled appropriately and accurately.

Effect of the Condition:

The three loans that were added to the Authority's loan servicing system for incorrect amounts upon being repurchased from the guarantor resulted in approximately \$174 erroneously being added to the outstanding balances of the borrower's loans and an overpayment to the guarantor for the same amount.

Cause of the Condition:

When loans are identified to be repurchased from a guarantor, the guarantor sends a repurchase worksheet to the Authority detailing the loans to be repurchased. This worksheet includes the outstanding balance for each loan and accrued interest through a specified repurchase date. In many situations, the Authority actually completes the repurchase before the specified repurchase date. This results in accrued interest amounts to be added to the Authority's loan servicing system and paid to the guarantor that are lower than the accrued interest amounts shown on the repurchase worksheet. In these situations, the Authority calculates the actual accrued interest on the repurchase worksheet to determine the actual amounts to be added to the loan servicing system and paid to the guarantor. The determination of the actual accrued interest amounts and addition to the loan servicing system is performed by one individual and not reviewed in sufficient detail by a second individual to ensure that the correct amounts are added to the loan servicing system and paid to the guarantor. A summary of the loans added to the loan servicing system is sent to the accounting department to make the payment to the guarantor and make the appropriate entries to record the repurchase. However, this summary only shows subtotals of principal and interest added to the loan servicing system by loan type for each borrower. A separate comparison of the amounts added to the loan servicing system to the amounts paid and recorded by the accounting department is performed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2012

FINDING 2012-03--Continued

Cause of the Condition--Continued:

However, no comparison or review is performed to ensure that the calculations on the repurchase worksheet are accurately performed and summarized on the schedule sent to accounting.

Recommendation:

We recommend that the Authority ensure that procedures are in place to verify that the outstanding balances of loans repurchased from the guarantor are accurately calculated, added to the loan servicing system, and sent to the accounting department for payment and entry into the accounting system. A reconciliation of the outstanding balances added to the system, the amounts calculated on the original repurchase agreement, and the amount paid to the guarantor and recorded in the accounting system performed by someone other than the individual calculating the actual outstanding balance of loans to be repurchased would be an effective procedure.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2012

There were no prior year findings or questioned costs.

Exhibit A

Corrective Action Plan



525 Central Park Dr., Suite 600
Oklahoma City, OK 73105-1706
P.O. Box 18145
Oklahoma City, OK 73154-0145
405-556-9210
Fax 405-556-9255
www.osla.org

CORRECTIVE ACTION PLAN

Single Audit Report

June 30, 2012

Finding 2012-01:

Not all required documents were properly maintained. It was specifically noted that the Servicer was not able to locate one signed promissory note.

Background / Comments –

OSLA utilizes document imaging and microfilm systems as repositories for our required student loan documents. OSLA currently services loans that were originated and disbursed by lender customers prior to OSLA starting our loan servicing responsibilities.

Actions Taken –

OSLA performed a diligent search in our document imaging and microfilm systems for this missing document. We were not able to find this document.

OSLA researched the Common Manual of Unified Student Loan Policy on this matter and found guidance that an Indemnification Agreement may be used or accepted if servicer is unable to provide this documentation for claim filing.

OSLA researched this loan in this finding and determined that it had been paid in full by consolidation.

Additionally, OSLA's research on this loan determined that the related missing document did not result in inaccurate reporting on any quarterly Lender's Interest and Special Allowance Request and Report.

Actions Planned –

OSLA currently is not receiving new loans for servicing. In the event that OSLA does resume adding new loans for servicing, we will review and update our procedures on obtaining and storing all required documents including signed promissory notes.

Finding 2012-02:

Certain quarterly Lender's Interest and Special Allowance Request and Reports (LARS) for OSLA owned loans and for loans owned by lender customers and serviced by OSLA were not filed within the required 90 day period after close of the calendar quarters.

Background / Comments –

OSLA did not assign adequate staff to prepare and submit these LARS reports during the periods noted. Additionally, OSLA encountered problems installing the new version of EdConnect which is the secured process for submitting the LARS reports.

Actions Taken –

OSLA staff worked with Department of Education personnel to identify un-filed LARS reports and to install the new version of EdConnect. All delinquent LARS reports were filed and all LARS for the quarter ending September 30, 2012 were filed by November 2, 2012.

Actions Planned –

OSLA will assign additional staff to the preparation and submission of quarterly LARS reports and properly monitor this work to ensure reports are filed in a timely manner.

Finding 2012-03:

Three loans that OSLA re-purchased from a guarantor were loan added to OSLA's servicing system in an amount \$173.51 greater than the actual value of the loans on that re-purchase date.

Background / Comments –

OSLA was performing manual calculations on borrower accrued interest on loans re-purchased from guarantors. This finding is related to human error in the calculations of borrower accrued interest on these loans.

Actions Taken –

OSLA corrected the overstatement of borrower accrued interest on the three loans in this finding and made arrangements to have the guarantor reimburse this overpayment of accrued interest.

Actions Planned –

OSLA will be automating the calculation of borrower accrued interest on re-purchases of loans using worksheet templates for these calculations. Additionally, OSLA will perform Quality Assurance procedures on these calculations related loan re-purchases.