

Single Audit Reports

**OKLAHOMA STUDENT
LOAN AUTHORITY**

June 30, 2013

OKLAHOMA STUDENT LOAN AUTHORITY

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**Independent Auditors' Report on
Compliance for Each Major Federal Program, Report on
Internal Control Over Compliance, and Report on Schedule of
Expenditures of Federal Awards Required by OMB Circular A-133**

Board of Trustees
Oklahoma Student Loan Authority

Report on Compliance for Each Major Federal Program

We have audited the compliance of the Oklahoma Student Loan Authority (the "Authority") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2013. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular No. A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2013-01. Our opinion on the major federal program is not modified with respect to these matters.

The Authority's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Authority as of and for the year ended June 30, 2013, and have issued our report thereon dated November 5, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 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 financial statements as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 27, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2013

<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 subsidies and special allowance payments, net of negative special allowance payments	84.032	\$ <u>(8,865,417)</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STUDENT LOAN AUTHORITY

June 30, 2013

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, 2013 as follows:

Interest subsidies	\$ 3,735,258
Negative special allowance payments, net	<u>(12,600,675)</u>
	<u>\$ (8,865,417)</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, 2013

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, 2013, 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, 2013, negative special allowance payments (approximately \$12,601,000, 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, 2013, approximately \$620,974,000 of the Authority's outstanding loans was guaranteed.

NOTE E—SUBRECIPIENTS

The Authority provided no federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2013

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unmodified

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:

Unmodified

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: \$265,963

Auditee qualified as low-risk auditee?

yes no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2013

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

None to report for the June 30, 2013 period.

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

See Finding 2013-01.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2013

FINDING 2013-01

Condition:

During our testing to verify that the required cure procedures were properly performed and documented for loans cured during the fiscal year ended June 30, 2013, we noted one instance where a loan was indicated as cured and the guarantee reinstated, but required cure procedures were not properly performed and documented. We tested the entire population of four cured loans during the fiscal year ended June 30, 2013, as the entire population was less than the required sample size of sixty prescribed by Section 3 of the *Lender Compliance Attestation Engagement Guide*.

Criteria:

To cure a loan for which a timely filing or due-diligence violation has occurred, a lender must perform specific procedures required by federal regulations. It is also required that documentation to support the curing of a loan be retained in the lender's records.

Effect of the Condition:

Incorrectly determining that a loan is cured could result in a longer period for which the loan is actually uninsured as OSLA will no longer attempt to perform cure procedures once the loan is indicated as cured and the guarantee reinstated. Failure to cure the loan within a specified time frame will result in the Authority not being able to recover funds from the guarantor.

Cause of the Condition:

The loan indicated as cured for which required cure procedures were not properly performed and documented was previously included in a consolidation. A bankruptcy claim was properly filed on the consolidation loan, and payment for the claim was received from the guarantor. However, the entire balance of the original loan was not properly consolidated, which resulted in a timely filing violation related to the portion that was not consolidated. OSLA did not perform proper procedures to verify that the loan was properly cured before reinstating the guarantee on the loan.

Recommendation:

We recommend that OSLA ensure that processes are in place to verify that all required procedures have been performed and all documentation has been retained for all loans indicated as cured for which the guarantee has been reinstated. A thorough secondary review of the loan history and documentation related to all cured loans by an individual knowledgeable of the federal regulations governing the cure process would help ensure that required procedures have been performed for all loans indicated as cured. Developing a checklist containing required procedures and documentation necessary to properly cure all types of violations could be beneficial to facilitate a thorough review.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2013

FINDING 2012-01: This finding was fully corrected in the current year.

FINDING 2012-02: This finding was fully corrected in the current year.

FINDING 2012-03: This finding was fully corrected in the current year.

Exhibit A

Corrective Action Plan



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CORECTIVE ACTION PLAN

Single Audit Report

June 30, 2013

Finding 2013-01:

One loan was indicated as cured during the year ended June 30, 2013, and the guarantee was reinstated for the loan; however, required cure procedures were not properly performed and documented for the loan.

Background/Comments

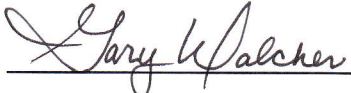
Although the loan servicing system indicated that the loan was not cured, an OSLA Claims Department Specialist made an error when interpreting the system data and the loan was mistakenly identified as cured.

Actions Taken

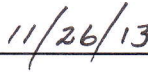
OSLA acknowledges that the loan noted was mistakenly identified as cured. This account is being closely monitored and we are following cure procedures as stated in the Common Manual in order to reinstate the guarantee by November 26, 2015. As of October 28, 2013, a new procedure has been implemented in which loans identified as cured by a Quality Services Specialist are confirmed by a second Quality Services Specialist prior to being submitted to the guarantor for reinstatement and coded on the servicing system.

Actions Planned

As noted, as of October 28, 2013 and going forward, accounts currently identified as cured will be reviewed and verified as accurate by a Quality Services Specialist who is familiar with cure process regulations. When loans are identified as cured, a secondary review by another Quality Services Specialist will confirm whether or not the loan is properly identified.



Gary Walcher
OSLA – Director of Quality Assurance



Date