

Single Audit Reports

**OKLAHOMA STUDENT
LOAN AUTHORITY**

June 30, 2014

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 the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.....	1
Schedule of Expenditures of Federal Awards	3
Notes to Schedule of Expenditures of Federal Awards	4
Schedule of Findings and Questioned Costs	6
Summary Schedule of Prior Audit Findings	9
Exhibit A - Corrective Action Plan	

**Independent Auditors' Report on
Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on the
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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed two instances of noncompliance, which are required to be reported in accordance with OMB Circular No. A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-01 and 2014-02. 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, 2014, and have issued our report thereon dated October 28, 2014, 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.



Oklahoma City, Oklahoma
October 28, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2014

<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>\$ (8,110,384)</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STUDENT LOAN AUTHORITY

June 30, 2014

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, 2014 as follows:

Interest subsidies	\$ 2,877,914
Negative special allowance payments, net	<u>(10,988,298)</u>
	<u>\$ (8,110,384)</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, 2014

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, 2014, 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, 2014, negative special allowance payments (approximately \$10,988,000, 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, 2014, approximately \$525,897,000 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, 2014

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:

<u>Program</u>	<u>CFDA Number</u>
Federal Family Education Loans	84.032

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

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

None to report for the June 30, 2014 period.

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

See Findings 2014-01 and 2014-02

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2014

FINDING 2014-01

Condition: During our testing of loan sales, purchases, and transfers between eligible lenders, we noted two consolidation loans for one borrower that were entered into the Authority's loan servicing system as having been repurchased fifteen days prior to the date the repurchase actually occurred. These two loans were identified from the testing of our sample of 60 loans which is the required sample size prescribed by Section 3.6 of the *Lender Compliance Attestation Engagement Guide*. Our sample of 60 was randomly selected from the universe of 434 sales, purchases, and transfers occurring during the fiscal year ended June 30, 2014.

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 two loans that were entered into the Authority's loan servicing system as having been repurchased fifteen days prior to the date the repurchase actually occurred resulted in approximately \$38 of interest accruing for the fifteen days that the loans were not actually held by the Authority to be paid by the borrower. Also, the principal balance of these loans of \$12,918 was reported on Part III of the Lender's Interest and Special Allowance Request and Report (LaRS) for fifteen days that the Authority did not hold the loans. Because the specific loans were Federal consolidation loans, the additional interest charged to the borrower will also have an ongoing negligible effect on the consolidation loan rebate fees paid each month by the Authority. This would result in less than \$1 per month of additional consolidation loan rebate fees paid by the Authority related to these two loans.

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. The Authority uses this worksheet to calculate the final amount of accrued interest included in the repurchase if the repurchase actually takes place on a date other than that which was specified by the guarantor. The worksheet with this calculation is then used to determine the amount to be remitted to the guarantor and to enter the repurchase into the Authority's loan servicing system. The Authority properly calculated the amount of accrued interest for the two loans using the date the repurchase actually occurred. However, the date of the repurchase was entered into the system fifteen days earlier than the date on the repurchase worksheet and the Authority's review process did not detect the erroneous date for this one repurchase loan add.

Recommendation: We recommend that the Authority ensure that sufficient review procedures are in place to verify that all aspects of repurchases are accurately entered into the system. If the incorrect date is entered for a repurchase, it can result in either too much or too little interest accruing related to the repurchased loan which can also affect amounts reported on the quarterly LaRS.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2014

FINDING 2014-02

Condition: We noted two loans for which default claims were filed and subsequently returned but not refiled within the required time frame resulting in timely filing violations. One of the loans was identified in our due diligence testing where we randomly selected a sample of 60 loans which is the required sample size prescribed by Section 3.9 of the *Lender Compliance Attestation Engagement Guide* from the universe of 22,479 delinquent loans at June 30, 2014. The other loan was identified in our timely claim filing testing where we randomly selected a sample of 60 loans which is the required sample size prescribed by Section 3.10 of the *Lender Compliance Attestation Engagement Guide* from the universe of 1,240 loans for which a claim had been filed as of June 30, 2014.

Criteria: Default claims must be submitted to the guaranty agency within 90 days of default. Claims that are returned to the lender must be refiled within 60 days after the receipt of the returned claim with certain restrictions on claims refiled on the 31st through 60th day.

Effect of the Condition: The timely filing violations will result in a loss of guarantee on the two loans with outstanding balances of \$1,797 and \$2,053. Unless the Authority can perform required cure procedures for these loans, the Authority will be responsible for any uncollectible portion of the outstanding balance of these loans.

Cause of the Condition: While the Authority has procedures in place to ensure default claims are originally filed timely, there are not sufficient procedures in place to ensure that all rejected claims are refiled timely.

Recommendation: We recommend that the Authority develop a process to ensure that all returned claims are timely communicated to those responsible for filing the claims so that all returned claims can be refiled within the required time frame.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

OKLAHOMA STUDENT LOAN AUTHORITY

Year Ended June 30, 2014

FINDING 2013-01: This finding was fully corrected in the current year.

Exhibit A

Corrective Action Plan



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Oklahoma City, OK 73154-0145
405-556-9210
Fax 405-556-9255
www.osla.org

CORRECTIVE ACTION PLAN

Single Audit Report

June 30, 2014

Finding 2014-01:

Two consolidation loans were noted for one borrower that were entered into the Authority's loan servicing system as having been repurchased fifteen days prior to the date the repurchase actually occurred.

Background/Comments

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. The Authority uses this worksheet to calculate the final amount of accrued interest included in the repurchase if the repurchase actually takes place on a date other than that which was specified by the guarantor. The worksheet with this calculation is then used to determine the amount to be remitted to the guarantor and to enter the repurchase into the Authority's loan servicing system. The Authority properly calculated the amount of accrued interest for the two loans using the date the repurchase actually occurred. However, the date of the repurchase was entered into the system fifteen days earlier than the date on the repurchase worksheet and the Authority's review process did not detect the erroneous date for this one repurchase loan add.

Actions Taken

This isolated incident was a human error, not a systemic issue, and has been corrected. The Authority corrected the issue by cancelling the repurchase loan add effective the same date that they were originally added to the system. The Authority then added both repurchase loans with the correct effective date. Since the Authority used the correct effective dates throughout the correction process, all adjustments to interest and special allowance calculations are correct.

Actions Planned

To help prevent similar incidences in the future, the Authority will enhance internal departmental quality control procedures to verify the accuracy of loan add dates. These enhanced quality control procedures will be implemented by October 31, 2014.

Gary Walcher
OSLA – Director of Quality Assurance

Date



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CORRECTIVE ACTION PLAN

Single Audit Report

June 30, 2014

Finding 2014-02:

We noted two loans for which default claims were filed and subsequently returned but were not refiled within the required time frame resulting in timely filing violations.

Background/Comments

Default claims must be submitted to the guaranty agency within 90 days of default. Claims that are returned to the lender must be refiled within 60 days after the receipt of the returned claim with certain restrictions on claims refiled on the 31st through 60th day. The timely filing violations will result in a loss of guarantee on the two loans with outstanding balances of \$1,797 and \$2,053. Unless the Authority can perform required cure procedures for these loans, the Authority will be responsible for any uncollectible portion of the outstanding balance of these loans.

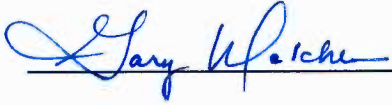
Actions Taken

There were two separate issues that resulted in timely filing violations of these two loans. For the first loan, the guarantor's system reflected a date of return. OSLA's system reflects no record of a returned claim. The Authority has in place a process where loans that have been physically returned to the Authority are tracked via a system query that is run once a week. These loans are added to a spreadsheet and the spreadsheet is handed out to staff so that they will have time to refile these loans that have been returned. The Authority accepted the timely filing violation based on the guarantor's date of return which was 9/25/2013. The loss of guarantee was on the 61st day of the return date which was 11/26/2013. The Authority received a signed disclosure from the borrower on 7/29/2014 indicating this account has been cured.

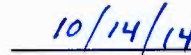
The second loan had been default claim filed and then was voluntarily recalled by the Authority due to total permanent disability information received. The Authority placed a forbearance on the account for 120 days in accordance with the Common Manual. The Authority has in place a procedure that tracks via a spreadsheet loans that are in a total permanent disability process. If no action is taken on the loan within 120 days, the loan is returned to the same level of delinquency as prior to total permanent disability notification. In this one instance, a human error occurred in that the Authority did not communicate to refile the claim to our claim review specialists, which resulted in a timely filing violation.

Actions Planned

To help prevent similar incidences in the future, the Authority will enhance internal departmental quality control procedures to ensure that all returned claims are timely communicated to those responsible for filing the claims so that all returned claims can be refiled within the required time frame. These enhanced quality control procedures will be implemented by October 31, 2014.

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Gary Walcher
OSLA – Director of Quality Assurance

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Date