

Oklahoma Student Loan Authority

Single Audit Reports
June 30, 2015

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RSM US LLP

**Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

The Board of Trustees
Oklahoma Student Loan Authority
Oklahoma City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma Student Loan Authority (the Authority) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 16, 2015. Our report includes emphasis of matter paragraphs describing a restatement of beginning net position and deferred outflows of resources due to the adoption of GASB Statement Nos. 68 and 71 and a statement that the Authority is an enterprise fund of the State of Oklahoma and the financial statements reflect only the financial position of that enterprise fund and not the State of Oklahoma as a whole.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Oklahoma City, Oklahoma
December 16, 2015

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

Independent Auditors' Report

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, 2015. The Authority's major federal program is identified in the summary of auditor's 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.

Auditor's 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, 2015.

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, 2015, and have issued our report thereon dated December 16, 2015, which contained an unmodified opinion on those financial statements. Our report includes emphasis of matter paragraphs describing a restatement of beginning net position and deferred outflows of resources due to the adoption of GASB Statement Nos. 68 and 71 and a statement that the Agency is an enterprise fund of the State of Oklahoma and the financial statements reflect only the financial position of that enterprise fund and not the State of Oklahoma as a whole. 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.

RSM US LLP

Oklahoma City, Oklahoma
January 29, 2016

**Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015**

Federal Agency/Program Title	Federal CFDA #	Federal Expenditures
U.S. Department of Education		
Federal Family Education Loan Program—interest subsidies	84.032L	<u>\$ 2,096,374</u>
		Outstanding Balance at June 30, 2015
Federal Family Education Loan Program—total guaranteed loans	84.032L	<u>\$ 440,202,730</u>

See notes to schedule of expenditures of federal awards.

Oklahoma Student Loan Authority

Notes to Schedule of Expenditures of Federal Awards

Note 1. 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 an 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 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).

Note 2. 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 are expended for debt service on a first-in, first-out basis. Interest subsidies represent receipts of interest by the Authority from the USDE for interest on subsidized Stafford and certain consolidation loans on behalf of a qualified borrower during certain periods.

Note 3. 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.

Oklahoma Student Loan Authority

Notes to Schedule of Expenditures of Federal Awards

Note 4. Federal Expenditures

Due to the nature of the federal awards for the fiscal year ended June 30, 2015, 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 accompanying schedule of expenditures of federal awards presents the total interest subsidies received from the USDE during the year related to the FFEL Program and spent for debt service. All federal awards received directly from federal agencies are included on the schedule.

Note 5. Subrecipients

The Authority provided no federal awards to subrecipients.

Oklahoma Student Loan Authority

Summary Schedule of Prior Audit Findings

Comment Number	Comment	Corrective Action Taken
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Findings Related to the Financial Statement Audit as Reported in Accordance with Generally Accepted *Government Auditing Standards*:

A. Internal Control

No matters were reported.

B. Compliance Finding

No matters were reported.

Findings and Questioned Costs for Federal Awards:

A. Internal Control

No matters were reported.

B. Compliance Finding

2014-01: This finding was fully corrected in the current year.
2014-02: This finding was fully corrected in the current year.

Oklahoma Student Loan Authority

Schedule of Findings and Questioned Costs

I. Summary of Auditor's Results:

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? 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? 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:

Federal CFDA #	Name of Federal Program
84.032	Federal Family Education Loans

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

Auditee qualified as low-risk auditee? Yes No

Oklahoma Student Loan Authority
A Component Unit of the State of Oklahoma

Schedule of Findings and Responses
June 30, 2015

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

(A) 2015-001—Significant Deficiency in Internal Controls Over Financial Reporting

Finding: Cash and investment reconciliations were not performed timely during the year ended June 30, 2015.

Criteria: In order to ensure transactions are recorded accurately and timely, reconciliations and review of cash and investment balances are necessary on a monthly basis.

Condition: The Authority did not complete and review cash and investment reconciliations for several months of the year on a timely basis and was unable to provide reconciliations for June 30, 2015 until late October 2015.

Cause: A review process of the reconciliations by management was not in place during the year to ensure the reconciliations were completed timely.

Effect: Several adjusting entries related to cash and investments balances at June 30, 2015 were recorded subsequent to year-end with the significant portion of these adjustments representing reclassifications totaling approximately \$896,000 between various cash accounts and student loan notes receivable. Not timely completing cash and investment reconciliations also caused delays in completing the audit of the Authority's financial statements for the year-ended June 30, 2015. Not timely reconciling cash and investments presents a risk that errors or fraud could occur and not be detected.

Recommendation: The Authority should ensure procedures are in place to reconcile cash and investment statements to the general ledger on a timely basis and those reconciliations should be reviewed by management to ensure accuracy and that they are completed timely.

Response and Corrective Action Plan: Cash and investment reconciliations are now current, and practices and procedures are in place to ensure the accounts are reconciled and reviewed on a timely basis. The effect of the errors was to overstate general ledger Restricted Cash and the Unprocessed Deposits account which is an offset to student loan notes receivable. The Authority processed cash payments received from borrowers on a timely basis, properly applied the payments to borrower accounts in the servicing system, and cash transfers were timely sent to the trust accounts.

(B) Compliance Findings

No matters were reported.

III. Findings Required to be Reported in Accordance with OMB Circular A-133:

(A) Internal Control

No matters were reported.

(B) Compliance Findings

No matters were reported.

