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MOHELA Responds To State Audit

St. Louis, MO (October 11, 2007) – The Higher Education Loan Authority of the State of Missouri (MOHELA) today issued its formal response to an audit of the state’s one-of-a-kind student loan authority.

Dr. John Smith, Chair of the MOHELA Board, and W. Thomas Reeves, Treasurer and Chair of the MOHELA Board audit committee, acknowledged the audit’s findings. “The Authority genuinely appreciates the work performed by the State Auditor’s Office and welcomes the opportunity to review past practices and make improvements to current and future operations, as may be necessary or appropriate,” wrote Dr. Smith and Mr. Reeves in a letter addressed to State Auditor Susan Montee. Copies of the Smith/Reeves letter were included in the MOHELA formal response to the auditor’s report.

Raymond H. Bayer, Jr., Executive Director and CEO for MOHELA, said that MOHELA has formally responded to each of the issues addressed by the audit and has already taken many steps to address them. “Consistent with MOHELA’s responses to the State Auditor’s findings, we have already moved forward with new Board members and a senior management group strongly rededicated to accountability, efficiency and transparency at all levels of the organization. As noted in the audit itself, MOHELA has taken significant steps over the past eighteen months to meet these goals,” Mr. Bayer said. Mr. Bayer and most of his senior management team, and all but one of MOHELA’s Board members have assumed their roles in the past two years.

MOHELA is the 12th largest student loan provider participating in the nonprofit secondary market sector in America and is a leading holder and servicer of student loans with more than \$5 billion in assets and loan purchase activity in excess of \$1.5 billion per year.

Although MOHELA is not a state agency and its employees are not state employees, MOHELA was established by state statute. It has always been self-supporting and receives no tax dollars. MOHELA’s operations are overseen by a seven-member board appointed by the Missouri Governor and confirmed by the Missouri Senate. MOHELA is subject to regulatory oversight by the U.S. Department of Education, which specifically recognized the efficiency of MOHELA’s operations by designating it as one of only 18 “exceptional performers” nationwide. In addition, MOHELA is audited annually by Deloitte & Touche – which recently issued a report on MOHELA’s financial operations that had no findings.

MOHELA’s mission is to provide lower-cost student loans and other financial and educational resources to benefit a diverse group of students so they can access higher education and to enable them to successfully complete postsecondary educational programs.

September 27, 2007

Susan Montee, CPA
Missouri State Auditor
301 West High Street, Office 880
P.O. Box 869
Jefferson City, Missouri 65102-0869

Dear Ms. Montee:

On behalf of the Higher Education Loan Authority of the State of Missouri (the "Authority"), attached please find the Authority's responses to the Management Advisory Report received from the State Auditor's Office. The Authority genuinely appreciates the work performed by the State Auditor's Office and welcomes the opportunity to review past practices and make improvements to current and future operations, as may be necessary or appropriate. The Management Advisory Report should supplement the Authority's annual financial audit prepared by Deloitte & Touche LLP.

The Authority takes its public mission very seriously. As you are aware, the Authority was created in 1981 pursuant to the Missouri Higher Education Loan Authority Act (the "Act") as a "body politic and corporate" for the purpose of ensuring that Missouri students would have access to student loans. The Authority is not a state agency nor are the Authority's personnel State employees. The Act further provides for the Authority to operate under the control of a seven-member governing board possessing experience relevant to student lending. The board members include five members appointed by the Governor, a member of the Coordinating Board for Higher Education, and the Commissioner of the Department of Higher Education. The five appointees include two representatives of higher education institutions (one public, one private), two representatives of Missouri lending institutions, and a representative of the general public.

Since its inception, the Authority has served its statutory purpose by assisting hundreds of thousands of borrowers in gaining financial access to higher education. Today, the Authority manages over \$5 billion in student loan assets with annual loan activity of \$1.66 billion. The Authority does not have a monopoly on Missouri student lending. Its competition consists primarily of large, out-of-state, for-profit lending institutions. These institutions operate in Missouri with little or no oversight by the State and are not interested in serving many of the smaller schools served by the Authority. The Authority, in contrast, operates under the direct control of a state-created board and offers its services to all Missouri schools. Furthermore, the Authority is subject to regulatory oversight by the U.S. Department of Education ("USDE"). USDE has specifically recognized the efficiency of the Authority's operations by designating it as one of only 18 "exceptional performers" nationwide. The annual Deloitte & Touche audit includes the Authority's financials, compliance requirements described in the U.S. Office of Management and Budget Circular A-133, and compliance with USDE's Audit Guide.

As a final matter of background information, it is important to note that the Authority is under new leadership and management. Six of the seven current members of the Authority's board, as well as the Authority's chief executive officer, chief financial officer, general counsel, and internal auditor began serving in those capacities in or after January 2006. While the Authority does not deny the past, we seek to move forward by emphasizing that the current board members and senior management group are committed to accountability, efficiency and transparency at all levels of the organization.

The Authority's board members and senior management group have taken significant steps over the past eighteen months to meet the stated goals of accountability, efficiency and transparency. While substantial progress has been made, we understand that, as noted in the Management Advisory Report, additional progress is required. Our attached responses indicate that, with limited exceptions, we concur with your recommendations and are committed to implementing them in a prompt and efficient manner. Indeed, many of the recommendations have already been implemented. The items listed below are just a sampling of the actions the Authority has undertaken over the past 18 months to address many of the items noted in the Management Advisory Report (and some items that were not noted):

- Established an Audit Committee of three board members who meet regularly with members of the senior management group (including the Authority's internal auditor) as well as the Authority's external auditor
- Implemented an internal audit report process requiring submission of reports simultaneously to the board members and the chief executive officer

- Expanded the policy compliance and audit department from one employee to six employees, including the addition of an auditor who is certified by the Institute of Internal Auditors as a Certified Internal Auditor
- Implemented a comprehensive fixed asset inventory and an asset acquisition, transfer and disposition form
- Implemented a revised travel and expense reimbursement policy
- Implemented a comprehensive online travel and expense documentation and approval process
- Implemented a process for the internal auditor to review and approve all travel and expense reports submitted by the chief executive officer and the chief financial officer
- Created the vehicle use policy to ensure accountability and efficiency
- Implemented a comprehensive procurement policy modeled in part on the State of Missouri's procurement rules
- Designated a procurement officer
- Implemented a charitable gifts policy
- Revised the Authority's Policy Governance Manual to require the board's annual approval of the Authority's operating and capital budgets
- Established a compensation model, approved by the board, for all employees to ensure that the board effectively establishes compensation rates and benefits for all employees, not just the chief executive officer
- Implemented Sunshine Law training programs for the board and senior management group

The Authority is proud of its role in making higher education more accessible and affordable for Missouri students and families. In recent years the Authority has provided hundreds of millions of dollars in benefits to students, parents, and higher education institutions throughout Missouri. The Management Advisory Report, and our response to the report, serves to highlight our commitment to public service and to accountability, efficiency and transparency in our operations. Thank you for your thoughtful advice.

Sincerely,

John F. Smith, PhD
Chair

W. Thomas Reeves
Treasurer and Audit Committee Chair

cc: Members of the Authority
Custodian of Records

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