Susan Montee, CPA
Missouri State Auditor

October 2007

Missouri Higher Education Loan Authority

Office of
Missouri State Auditor
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YELLOW SHEET

The following report is our audit of the Missouri Higher Education Loan Authority (MOHELA)

Since the MOHELA was created in 1981, it has generally reinvested its operating surpluses in additional student loans, resulting in the accumulation of a substantial amount of marketable assets. At June 30, 2006, the MOHELA's net assets totaled about $234 million, with operating revenues exceeding operating expenses by over $25 million in fiscal year 2006, The MOHELA's authorizing statutes do not include provisions that identify the amount of liquid assets necessary for operations nor specify how any surpluses are to be used.

During 2007, a law was enacted that will require the MOHELA to distribute $350 million to the state over the next six years, primarily for various capital improvement projects at the state's public colleges and universities. The $230 million initial distribution was transferred to the state on September 14, 2007. However, a class-action lawsuit has been filed against the MOHELA contending that this plan is an illegal diversion of MOHELA assets. This lawsuit is currently pending. Regardless of how this litigation is resolved, the MOHELA has a fiduciary responsibility to identify any available surplus funds and use them to further its public mission.

The MOHELA has paid or will pay almost $2.3 million in severance benefits to four former executives who either resigned or whose employment was terminated in recent years. Approximately $2 million of this amount represented severance pay to these individuals. These severance benefits were excessive and do not appear to have been an appropriate use of monies. The related separation agreements included: total severance payments up to 2.8 times the applicable individual's annual salary, health insurance payments, pension benefits, and other lump sum payments. Recent board decisions indicate that any future severance benefits paid to executives will be substantially reduced. However, based on past board practices, there is no assurance that severance benefits paid to outgoing executives might differ from those outlined in formal or informal employment arrangements.

From fiscal year 2001 through fiscal year 2004, five MOHELA executives (including the four discussed previously) received annual performance bonuses totaling almost $1.5 million. The performance bonuses paid to executives for fiscal year 2004 ranged from $112,500 to $157,500, and were computed based on 45 percent of those individuals' annual base salaries for that year. In addition, the executives' base salaries in fiscal years 2001 and 2004 were increased temporarily during the first three months of those periods. These temporary salary increases totaled $65,000 and $82,500 in fiscal years 2001 and 2004, respectively. This additional compensation was "in consideration for upcoming extraordinary activities required of the Employee in the next quarter …"

Other benefits provided to the top executives from October 2000 to June 2004 that appeared excessive included:

- A combined total of up to 480 hours (twelve weeks) of vacation leave and personal time off each year, with a provision allowing the individual to convert any unused leave/time off to cash at the end of each fiscal year. During the time period reviewed, three of the five executives chose to convert their unused vacation leave and/or personal time off to cash at a cost of more than $200,500, which represented approximately 1,300 hours of leave/time off.

- A MOHELA provided car or a car allowance starting at $750 per month and adjusted each year by the increase of the Consumer Price Index. From fiscal years 2001 through 2004, over $146,000 was paid in car allowances to these five employees.

- Life insurance policies with premiums of $50,000 annually for each executive (with coverage totaling from $800,000 to $1.7 million and a cash surrender value), and eligibility for a no-cost executive retiree medical insurance plan upon retirement.

In late 2000, the MOHELA entered into a contract with a general contractor to build a new headquarters building at an amount not to exceed approximately $11 million. The MOHELA could produce no documentation to support how this contractor was selected and it appears competitive bids were not solicited related to these services. The MOHELA also paid over $400,000 for architectural services related to this project for which competitive proposals were not solicited. In addition, the MOHELA allowed the construction manager of a parking lot expansion project to submit two bids and perform construction work on the project, which violates state law.

After the MOHELA moved into its new headquarters building in April 2002, it paid over $1.25 million in lease payments for an 18-month period for a leased building it had previously occupied, but no longer needed. The authority's lease on the old building did not expire until October 2003. A five-year lease on the previous headquarters building had been signed and the authority was unable to get out of the lease agreement, which required a lease payment of approximately $69,600 per month, plus a monthly fee for utilities. The MOHELA was unable to find another company to sublease the leased property, so it was used to store old office furniture and equipment during the remainder of the lease period.

The MOHELA had no formal procurement policy prior to March 31, 2007. As a result, during the past three fiscal years, various expenditures were noted in which competitive bids (or competitive proposals, in the case of professional services) were not solicited and/or retained including, but not limited to: attorney services, $1,752,483; public relations and marketing, $924,254; office supplies, $716,779; automated loan data exchange services, $455,016; computer equipment, $444,073; bulk mail services, $218,296; promotional items, $199,758; and the services of a strategic planning consultant totaling more than $233,800. MOHELA officials indicated that some of these services were obtained from sole source providers; however, documentation justifying these situations was not maintained. In addition, the MOHELA did not go through a formal request for proposal process to procure trustee bank services during 2003. The trustee bank currently receives fees totaling about $750,000 annually for its services.

In the past three years, the MOHELA has incurred the following expenditures that do not appear to be a reasonable or prudent use of its funds:

- More than $46,000 was expended on the annual MOHELA Board retreats. Two of these annual retreats (in November 2004 and 2005) were held at a luxury resort south of Branson. The cost of the November 2004 retreat totaled at least $12,334, and included $6,605 in room charges (guest room charges ranged from $319 to $409 per night), $4,421 in catering charges, and $1,308 in other charges. More than $1,500 was spent related to alcoholic beverages. The cost of the November 2005 retreat totaled at least $16,596, and included $11,685 in room charges, $3,871 in catering charges, and $1,040 in room service and other charges. The November 2006 annual retreat was held in St. Louis and at least $17,398 in costs were incurred related to this retreat, including $3,403 in meeting room and lodging costs, $8,120 in catering charges (including over $1,200 for alcoholic beverages), and $5,875 in meal and entertainment expenses at a local dinner theatre.

- Over $688,000 was spent on gift cards and bonuses provided to employees during the Christmas holiday seasons. In addition, at least $28,716 was expended on annual employee holiday parties during the past three years, with those costs including $2,741 for 645 drink tickets and $2,545 for a 20 percent hotel service charge (related to the December 2004 party), $575 for a disc jockey, and $500 for a magic show. The parties were planned for approximately 275 to 320 guests.

The MOHELA did not have a complete listing of its property items, with its accounting records only including those items costing over $10,000. In addition, periodic physical inventories are not performed, and most items are not identified with a tag or other device identifying them as MOHELA property. Also, adequate records had not been established to authorize and account for the disposition of property items, even though the authority disposed of over 1,200 property items with an original cost totaling over $3.8 million from July 1, 2003 through December 31, 2006. Many of these items were disposed of during or around October 2003, when the lease on the prior headquarters building expired. Further, it has been MOHELA's policy to offer any surplus or unneeded property items for sale to its employees (or members of their immediate families), rather than selling such items through a public auction, which is the common practice in the public sector.

The MOHELA did not always receive adequate supporting documentation prior to paying invoices. One of the examples noted included a $198,514 payment to a financial consulting firm hired in 2006 to review the financial feasibility of the Lewis and Clark Discovery Initiative. In addition, we noted over $19,300 in other payments made without adequate or detailed supporting documentation. Also, a review of some procurement card purchases disclosed that adequate supporting documentation was not always submitted to support these expenditures. In some instances, receipt slips were not submitted for items purchased. In other instances, only a credit card charge slip was submitted, rather than a detailed invoice or receipt slip.

Several internal audits could not be completed and the reports issued in a timely manner due to management's delay in providing formal responses to the auditors. This resulted in the MOHELA Board not receiving the internal audit reports timely and a delay in the implementation of some audit recommendations. The MOHELA paid an outside auditing firm over $345,000 for these internal audit-related services.

The MOHELA has taken steps to address many of the issues mentioned above.

In recent years, the MOHELA Board closed its meetings on numerous occasions, which may constitute a violation of state law. Section 173.365, RSMo, in referring to the MOHELA, states, "Each meeting of the authority for any purpose whatsoever shall be open to the public" (emphasis added).

The State Auditor's Office (SAO) requested access to the closed meeting minutes of the MOHELA Board, considering a review of these records as pertinent and necessary for the completion of all planned/required audit work. The board decided not to provide the closed meeting minutes and litigation is currently pending regarding this matter. Because we have not been allowed to review the board's closed meeting minutes, this has limited the scope of our work necessary to complete this audit and prevented us from considering any pertinent information contained in those minutes in our findings and conclusions.

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

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SUSAN MONTEE, CPA
Missouri State Auditor

Honorable Matt Blunt, Governor
and
Members of the Missouri Higher Education Loan Authority
and
Raymond H. Bayer, Jr., Executive Director and Chief Executive Officer
Missouri Higher Education Loan Authority
Chesterfield, MO 63005

Except as discussed in paragraph two below, we have audited the Missouri Higher Education Loan Authority. The authority had engaged Deloitte & Touche LLP, Certified Public Accountants (CPAs), to perform financial statement audits of the authority for the years ended June 30, 2006 and 2005. To minimize any duplication of effort, we reviewed the reports and substantiating working papers of this CPA firm. The scope of our audit included, but was not limited to, the years ended June 30, 2006 and 2005, and included certain activities/transactions dating back to 2000. The objectives of our audit were to review:

1. Payroll and personnel policies and practices, including executive severance benefits, employee pension plans, and other benefits.

2. Expenditures and related procurement policies and practices.

3. Compliance with certain legal provisions.

4. The authority's operating results and the provisions applicable to any surpluses generated.

5. Records and controls related to property/fixed assets.

6. Controls, policies, procedures, and regulations related to significant financial and support functions.

Our methodology to accomplish these objectives included reviewing minutes of meetings, written policies, financial records, and other pertinent documents; interviewing various personnel of the authority; and testing selected transactions. Information contained in the MOHELA Board's meeting minutes for closed sessions was not provided to us. Because of this

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limitation imposed by the authority on the scope of our audit, we could not audit certain potential transactions or information related to transactions. In April 2007, we filed litigation to secure access to the MOHELA Board's closed meeting records and that litigation is currently pending. Assuming a positive outcome, it is our intent to perform additional audit work which could result in additional audit results being subsequently reported.

In addition, we obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, except for certain legal matters cited in this report, providing an overall opinion on compliance with legal provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Except to the extent that we were prevented from reviewing any relevant and necessary information as a result of the MOHELA Board's refusal to provide the records which are currently being litigated, our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the authority's management and was not subjected to the procedures applied in the audit of the authority.

The accompanying Management Advisory Report presents our findings arising from our audit of the Missouri Higher Education Loan Authority.

Susan Montee

Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Gregory A. Slinkard, CPA, CIA
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	James A. Samek

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Identification and Use of Any Surpluses

The Missouri Higher Education Loan Authority (MOHELA) has accumulated a substantial amount of marketable assets. Through normal operations, these assets can generate significant amounts of liquid assets, such as cash. The MOHELA's authorizing statutes do not include provisions that identify the amount of liquid assets necessary for operations nor specify how any surpluses are to be used.

Since the MOHELA was created in 1981, it has generally reinvested its operating surpluses in additional student loans, resulting in the accumulation of a substantial amount of net assets. At June 30, 2006, the authority's net assets (total assets minus total liabilities) were approximately $234 million, with operating revenues exceeding operating expenses by over $25 million in fiscal year 2006. While a portion of the authority's net assets are restricted or invested in fixed assets (and are not available for distribution), the authority has accumulated a substantial amount of marketable assets, the sale of which can generate significant amounts of cash for operations and other programs. The MOHELA's authorizing statutes (Sections 173.350 to 173.450, RSMo) do not include any provisions establishing a means or mechanism to identify the extent of any surplus funds or which specify how such funds, if distributed, should be used.

As discussed more fully in the History, Organization, and Statistical Information section of this report, during the 2007 legislative session, the General Assembly passed legislation that includes provisions which will require the MOHELA to distribute $350 million to the state over the next six years, primarily for various capital improvement projects at the state's public colleges and universities. This plan (the Lewis and Clark Discovery Initiative) will require the MOHELA to sell some of its loans to help fund the distributions, with the first distribution of $230 million scheduled to occur by September 15, 2007. Thereafter, quarterly distributions of $5 million are to be made through September 30, 2013.

This legislation became effective August 28, 2007; however, on August 9, 2007, a class-action lawsuit was filed (on behalf of two individuals with student loans) in the Cole County Circuit Court against the MOHELA contending that this plan is an illegal diversion of MOHELA assets. The lawsuit is asking that the court bar the authority from financing this capital improvements plan and declare the related legislation illegal. While this lawsuit is currently pending, the MOHELA transferred the $230 million initial distribution to the state on September 14, 2007.

Regardless of how this litigation is resolved, action is needed to ensure any available surpluses are used in the future to further MOHELA's public mission. The MOHELA has a fiduciary responsibility to identify any available surplus funds and use them in an appropriate manner. In addition, the General Assembly should consider adding appropriate provisions to the MOHELA's authorizing statutes to provide some guidance regarding the identification and appropriate use of future surpluses, rather than leaving those decisions to the discretion of the public officials at the time their availability may be determined. Those legally authorized uses should closely correlate with the MOHELA's mission, which is, in part, to eliminate barriers for students so they can access higher education.

WE RECOMMEND the MOHELA, in the future, identify the extent of any surplus funds and distribute such monies in a manner consistent with its mission. In conjunction with this, the authority should work with the General Assembly to add appropriate provisions to its authorizing statutes.

AUDITEE'S RESPONSE

The Authority's net assets fall into two categories: (1) restricted net assets; and (2) unrestricted net assets. With respect to restricted net assets, the Authority has little or no latitude in how such assets are either invested or used. Rather, the restricted assets have already been pledged or otherwise encumbered by bond documents that impose stringent limitations on the investment and use of such assets. Such limitations are consistent with standard credit underwriting requirements for student loan asset-backed securities.

The Authority's unrestricted assets can only be used in accordance with its enabling legislation (the Missouri Higher Education Loan Authority Act, Sections 173.350, RSMo, et seq.), which clearly stipulates acceptable uses. Generally, almost all of the Authority's unrestricted net assets are reinvested into student loans. The Authority maintains a very limited amount of unrestricted net assets in the form of "cash," which it uses to fund ongoing operations.

The Authority believes that the Missouri Higher Education Loan Authority Act provides clear and specific guidance for the use of unrestricted net assets. The initial court ruling in the lawsuit referenced in the Management Advisory Report supports the Authority's position in this regard.

2. Executive Severance Packages

The MOHELA has paid or will pay almost $2.3 million in severance benefits to four former executives who either resigned or whose employment was terminated during fiscal years 2004 through 2006. Approximately $2 million of this amount represented severance pay to these individuals.

Section 173.370, RSMo, states, "the authority may appoint an executive director . . . who shall serve at its pleasure." In the public sector, such statutory language would generally indicate the entity/agency would not be liable or bound to pay that official any substantial compensation or severance benefits after employment is terminated. However, in recent years, the MOHELA entered into employment agreements with its top administrative official and other executives, which included substantial severance benefits if their employment was involuntarily terminated without cause or if the executive voluntarily terminated for good reason.

According to MOHELA officials, due to concerns regarding executive turnover/retention, the MOHELA Board entered into employment agreements with its Executive Director/Chief Executive Officer (CEO) and four other top executives in October 2000. These initial agreements were subsequently amended and eventually replaced by annual letters of appointment; but they always included some separation (severance) provisions or agreements.

Between November 2003 and January 2006, four of these five executives left the employment of MOHELA, either by resignation or involuntary termination. Severance benefits paid to these former executives or on their behalf are presented in the following table:

		Executive #1	Executive #2	Executive #3	Executive #4	Total
Severance pay	$	502,000	650,000	221,154	630,000	2,003,154
Pension buy-out		0	0	0	151,221	151,221
Personal time off pay-out		0	0	0	22,885	22,885
Vacation leave pay-out		0	0	9,616	26,923	36,539
Car allowance		7,356	0	0	0	7,356
Outplacement services		0	0	0	14,000	14,000
Health insurance premiums		26,089	0	13,962	8,352	48,403
TOTAL	$	535,445	650,000	244,732	853,381	2,283,558

The following is information regarding each of the former MOHELA executive's severance benefits:

Executive #1 – This individual's employment was terminated in November 2003, after over 21 years of service. At the time of termination, this individual was serving as Executive Director and CEO at an annual salary of $255,922. The employment agreement in effect at the time of termination provided for severance benefits; however, a different separation agreement was entered into and signed in March 2004. The following severance benefits were paid to or on behalf of this individual:

- A total of $502,000 in payments equal to this individual's bi-weekly salary through November 2005 (almost two years of regular pay). This amount includes $59,059 in salary payments made to this individual from the date of termination in November 2003 through February 2004, prior to the signing of the separation agreement.

- $7,356 in payments for the individual's monthly car allowance (over $700 per month) through December 2004.

- $26,089 in COBRA health insurance premiums through November 2005.

In addition, the separation agreement provided that this former executive would begin receiving pension benefits of $8,350 per month ($100,200 per year) for life effective March 2004. Further, the separation agreement provided that after the expiration of the COBRA benefits in November 2005, retiree medical plan benefits (of up to $315,000) would be provided to the former executive and spouse until the individuals become Medicare eligible, at which time, the medical plan will become secondary.

The separation agreement in place prior to the March 2004 separation agreement provided for more severance pay and more benefits than this former executive received in the final agreement.

Executive #2 – This individual resigned in October 2004, after over 14 years of service. At the time of resignation, this individual was serving as Executive Vice President/Chief Financial Officer (CFO) at an annual salary of $232,757. This official's employment agreement provided for severance benefits; however, a different agreement was reached at the time of resignation. The new separation agreement provided that this individual would receive 52 bi-weekly payments of $12,500, totaling $650,000 (approximately 2.8 times this individual's annual salary).

The separation agreement in place prior to the final agreement provided for more severance pay and more benefits than this executive received in the final agreement.

Executive #3 – This individual's employment was terminated in October 2005, after over 22 years of service. At the time of termination, this individual was serving as Associate Director at an annual salary of $250,000. It appears the separation agreement in effect at the time of termination was executed. The following severance benefits were paid to or on behalf of this individual:

- A total of $221,154 in 23 bi-weekly payments equal to this individual's bi-weekly salary through February 2007. The separation agreement provided that the former executive would receive the ending bi-weekly salary for the number of pay periods equal to the employee's years of service.

- $13,962 in COBRA health insurance premiums over the same 23 bi-weekly pay periods through February 2007.

- A $9,616 payment for accumulated vacation leave (80 hours).

Executive #4 – This individual's employment was terminated in January 2006, after over 13 years of service. At the time of termination, this individual was serving as Executive Director/CEO and General Counsel at an annual salary of $350,000. The employment agreement in effect at the time of termination provided for severance benefits; however, a different agreement was entered into and signed in October 2006. The following severance benefits were paid to or on behalf of this individual:

- A total of $630,000 in payments equal to this individual's bi-weekly salary through October 2007. This amount includes approximately $280,000 in salary payments made to this individual from the date of termination in January 2006 until the settlement agreement was signed in October 2006.

- A $151,221 lump sum payment representing a buy-out of this individual's future pension benefits.

- A $14,000 payment in lieu of providing job placement services.

- $8,352 in COBRA health insurance premiums through July 2007.

- A $49,808 payment for accumulated vacation leave and personal time off (296 total hours).

The separation agreement that was in place prior to the final agreement provided for less severance benefits than this former executive actually received.

Because we were not allowed to review records related to closed meetings of the MOHELA Board, there was not adequate documentation available to explain why the separation agreements were changed after the applicable individuals' terminations/resignation or whether the payment of any severance benefits was justified.

The severance benefits paid to these former executives were excessive and do not appear to have been an appropriate use of monies. The MOHELA has a fiduciary responsibility to ensure that these public funds are used effectively and consistent with its mission. Recent board decisions indicate that any future severance benefits paid to executives will be substantially reduced. The current Executive Director/CEO is working under the terms of a signed offer letter, which provides for three months of severance pay if he is involuntarily terminated without cause. No other current MOHELA executives have in place an employment agreement or similar document nor have they been promised any severance benefits upon termination. However, based on past board practices, there is no assurance that severance benefits paid to outgoing executives might not differ from those outlined in formal or informal employment arrangements.

WE RECOMMEND the MOHELA refrain from paying excessive severance benefits to its outgoing executives in the future. If any severance benefits are provided, they should be limited and consistent with those benefits agreed to prior to resignation/termination.

AUDITEE'S RESPONSE

The Authority's current board members are committed to not pay severance benefits to any employee in excess of what the employee is entitled to receive. No severance agreements of any kind are in place for current employees, with one exception: As noted in the Management Advisory Report, the current Executive Director has an agreement which calls for three months of severance pay in the event that he is terminated without cause. The Authority's current board members have indicated a strong preference of maintaining solely employment-at-will relationships with all employees, including the Executive Director.

3. Other Payroll and Personnel-Related Matters

MOHELA executives have received excessive benefits and additional compensation in recent years, including almost $1.5 million in performance bonuses over a four-year period. In addition, the MOHELA has expended over $688,000 on gift cards and holiday bonuses to its employees during the past three years. The authority has also not established adequate procedures to ensure its employees have paid their state income taxes or have valid driver's licenses.

A. In addition to the substantial severance benefits discussed in this report, the five top MOHELA executives discussed in that finding were eligible (pursuant to the employment agreements) for certain additional executive staff benefits over and above their stated salaries. These additional benefits included:

1. From fiscal year 2001 through fiscal year 2004, these executives were eligible to receive annual performance bonuses between 40 and 50 percent of their annual base salaries each year. The bonus amounts were dependent on certain pre-established annual performance goals/targets being met. Performance bonuses were paid to these top executives for the following fiscal years:

Fiscal Year	Number of Executives Receiving Performance Bonuses	Total Performance Bonuses Paid
2001	5	$ 206,925
2002	5	388,584
2003	5	503,454
2004	3	382,500
TOTAL		$ 1,481,463

Note – Only three executives received performance bonuses for fiscal year 2004 because the other two executives who had been previously eligible were terminated or in the process of leaving authority employment.

The performance bonuses paid to the three applicable executives for fiscal year 2004 ranged from $112,500 to $157,500, and were computed based on 45 percent of those individuals' annual base salaries for that year (ranging from $250,000 to $350,000). This percentage factor was based on the following performance goals/targets (and point values):

- Expenses compared to monthly average amount of loans owned and serviced less than .725 percent (25 points)
- Operating expenses less than 2 percent over budget (25 points)
- Purchase at least $750 million in loans (15 points)
- Results of an annual assessment of the executives (10 points)
- No reported material findings in the annual external audit (25 points)

It appears most of these performance goals/targets would not have been difficult to attain, and all three executives received the maximum points available, except for the fourth goal/target due to the annual assessments not being completed. Therefore, each executive received 90 points. That number was divided by 2 to arrive at the 45 percent factor used in computing the performance bonuses for each executive.

The authority could not locate documentation related to the goals/targets or the calculation of the performance bonuses for fiscal years 2001 through 2003.

In addition to the abovementioned performance bonuses, when the employment contracts were signed in 2001 and 2004, those agreements provided for the executives' base salaries to be increased temporarily by specified additional amounts during the first three months of the agreement. These temporary salary increases totaled $65,000 and $82,500 in fiscal years 2001 and 2004, respectively.

According to the employment agreements, this additional compensation was "in consideration for upcoming extraordinary activities required of the Employee in the next quarter of the initial term." There was no other documentation to indicate the extent and nature of the extraordinary activities that would be required of these executives in the upcoming quarter. The current Executive Director/CEO indicated these additional/extraordinary activities related to reorganizations which occurred around the time of these agreements.

2. Other executive staff benefits provided from October 2000 to June 2004 which appeared excessive included the following:

- 240 hours (six weeks) of vacation leave each year, with a provision allowing the individual to convert any unused leave to cash at the end of each fiscal year. In contrast, other MOHELA employees could receive a maximum of 120 to 160 hours (three to four weeks) of vacation leave each year and did have the option of converting unused balances to cash at their employment anniversary dates.

- 240 hours (six weeks) of personal time off (PTO) each year (some officials initially received a lesser amount, with the amount increasing in subsequent years), with a provision allowing the individual to convert any unused time off to cash at the fiscal year end. In contrast, other MOHELA employees receive a maximum of 72 hours of PTO each year. They had the option of converting any unused PTO over 72 hours to cash at the end of the fiscal year.

- A MOHELA car provided to the executive, or a car allowance starting at $750 per month and adjusted each year by the increase of the Consumer Price Index. From fiscal years 2001 through 2004, over $146,000 was paid in car allowances to these five employees.

- Life insurance policies with premiums of $50,000 annually for each executive (with coverage totaling from $800,000 to $1.7 million). In addition to a death benefit, these policies provided a cash surrender value. In contrast, the life insurance coverage provided other MOHELA employees was limited to two times their annual salaries, up to a maximum of $200,000 in term life insurance, with no cash surrender value.

- Eligibility for a no-cost executive retiree medical insurance plan upon retirement. In contrast, there is no retiree health insurance plan for other MOHELA employees. Retiring employees can obtain COBRA health insurance coverage, but they are required to pay the cost of this health insurance.

During the time period reviewed, three of the five executives chose to convert their unused vacation leave and/or PTO to cash at the end of one or more years. The related payments totaled $200,544 and represented approximately 1,300 hours of leave/time off.

As similarly noted with the severance benefits, actions have been taken in more recent years to reduce the benefits provided to top executives to a more reasonable level. The performance bonuses and many of the benefits discussed above were discontinued or reduced in fiscal year 2005, when the existing employment agreements for the remaining executives were converted to annual appointments. The current Executive Director/CEO's benefit package is generally comparable to most other MOHELA employees.

B. During the past three years, the authority has spent over $688,000 on gift cards and bonuses during the Christmas holiday season. In December 2004, each employee received a $200 gift card regardless of his/her position or title. In December 2005 and 2006, each employee received extra compensation of $1,500 and $1,000, respectively. The amounts paid were pro-rated for those individuals employed less than one year. The total annual cost of these gifts cards and holiday bonuses was:

December	Total Paid
2004	$ 51,440
2005	382,690
2006	254,500
Total	$ 688,630

It should be noted that the current Executive Director/CEO did not accept the $1,000 bonus in December 2006.

Providing gifts and holiday bonuses to employees is generally not considered an acceptable practice in the public sector. Considering its public mission, these gifts/payments do not appear to be a necessary or appropriate use of MOHELA's funds.

C. The MOHELA does not ensure its employees have paid their state income taxes, nor does it perform an on-going check to ensure employees who are required to travel have valid drivers' licenses.

Section 105.262.1, RSMo, requires "as a condition of continued employment with the state of Missouri, all persons employed full time, part time, or on a temporary or contracted basis by the executive, legislative, or judicial branch shall file all state income tax returns and pay all state income taxes owed." In addition, the state's vehicle policy requires that an operator of a state vehicle must have a valid driver's license. The authority ensures employees have a valid driver's license the first time they use a MOHELA vehicle; however, no on-going or periodic check is performed.

The above provisions are good business practices to follow to ensure employees' compliance with state laws/policies.

WE RECOMMEND the MOHELA:

A. Refrain from providing excessive benefits or additional compensation to its executives.

B. Discontinue the practice of providing gifts or holiday bonuses to its employees.

C. Establish procedures to ensure employees are paying their state income taxes and are not driving MOHELA vehicles without a valid driver's license.

AUDITEE'S RESPONSE

A. The current board members have taken steps to ensure that all employees receive the same level of benefits regardless of whether or not they hold an executive level title. The Authority does not anticipate offering either excessive or additional compensation to executives. No bonus arrangements with executives are contemplated.

B. The Authority currently has no plans to offer holiday gifts or bonuses during the upcoming holiday season.

C. The Authority's employees are not employees of the State of Missouri and thus the cited statute and policy are inapplicable. The Authority believes, however, that confirming payment of state income taxes and ensuring that only licensed drivers are operating the Authority's vehicles are sound practices. Accordingly, to the extent that such practices are legal and reasonably feasible, the Authority will seek to implement this recommendation.

4. Construction Projects and Property Management

The MOHELA did not solicit competitive bids related to the construction of its new headquarters building, as well as some other real property-related costs/services. In addition, when the authority moved into its newly constructed building in 2002, it was still obligated to pay over $1.25 million in lease payments on the building it had previously occupied. The construction manager on one of its projects was allowed to bid and perform work on the project it was managing, which is a violation of state law. Further, contract documentation was not retained.

Between late 2000 to early 2007, the MOHELA constructed a new headquarters building (completed in April 2002 at a total cost of approximately $11.2 million, including construction costs, architectural and legal fees, and other costs related to the project), and also incurred expenditures on two smaller projects, a parking lot addition (completed in June 2006 at cost of about $250,000) and the renovation of a portion of its headquarters building (completed in January 2007 at a cost of about $158,000). In addition, the authority has hired a real estate property manager to handle various on-going contracts (lawn care, maintenance, etc.), as well as act as liaison for any construction projects. We noted the following concerns related to these projects or services:

A. In late 2000, the MOHELA entered into a contract with a general contractor to build a new headquarters building at an amount not to exceed $10,998,220. Construction of this building was substantially completed in the spring of 2002, with the authority moving into the new building in April 2002. According to MOHELA's accounting records, at least $10.3 million was paid to this contractor related to this project.

The MOHELA could produce no documentation to support how this contractor was selected and it appears competitive bids were not solicited related to these construction services. The MOHELA officials who were involved in the decisions related to this construction project are no longer employed by the authority; however, the current Executive Director stated he was reasonably sure that competitive bids were not obtained related to this construction contract. While the general contractor subcontracted some of the work (i.e., electrical, installation of sprinkler system, HVAC, plumbing, etc.) and the contractor was required to solicit competitive bids for this work, the records were incomplete regarding the extent of subcontracted work, any bids that were solicited, and the amounts paid to subcontractors.

In addition to the construction costs incurred on this building, the MOHELA paid over $400,000 for architectural services related to this construction project. It appears that competitive proposals were not solicited related to these architectural services either.

The solicitation of competitive bids/proposals on major construction projects is a commonly accepted practice in the public sector. Such a process or procedure is necessary to ensure the public entity receives fair value by contracting with the lowest and best bidder. The authority maintained more documentation to support the procurement of the construction-related services of the two smaller subsequent projects and it appears did a better job of soliciting competitive bids/proposals for those projects. However, we noted competitive proposals were not obtained for the survey and engineering work related to the parking lot expansion project.

B. After the MOHELA moved into its new headquarters building in April 2002, it paid over $1.25 million in lease payments for an 18-month period for a leased building it had previously occupied. The authority's lease on the old building did not expire until October 2003.

According to authority officials, a five-year lease on the previous headquarters building had been signed and the authority was unable to get out of the lease agreement, which required a lease payment of approximately $69,600 per month, plus an additional monthly fee for utilities. The MOHELA was unable to find another company to sublease the leased property, so it was used to store old office furniture and equipment during the last year and a half of the lease period.

According to the current Executive Director/CEO, when the MOHELA made the decision to construct the new headquarters building, it was believed that it would be relatively easy to sublease this office space; however, this did not occur due to what that official perceived as a local economic downturn in the latter part of 2001. This official indicated that the new headquarters building was constructed during the middle of the lease term because the authority needed the additional space the new building would provide (80,000 square feet in the new building versus 45,000 in the leased building) and enhanced computer capabilities.

Whether the construction of the new headquarters building could have been delayed could not be determined; however, as a result of this situation, the MOHELA paid over $1.25 million in lease payments on building space it did not need during the last year and a half of the lease period.

C. Since 2002, the MOHELA has hired a private real estate property manager to serve as a consultant in the care and maintenance of its current headquarters building. There is no documentation to indicate that competitive bids or proposals were solicited for these real estate property management services when they were initially procured in 2002, and no efforts have been made to rebid these services since that time. The authority has paid over $170,000 to this property manager since 2002.

The current Executive Director indicated that he believes that bids/proposals were not obtained for these services because the authority had utilized the services of this consultant when acquiring the land for the new headquarters building, and it had developed a good working relationship with this company.

MOHELA officials should consider periodically rebidding these real estate property management services, if they continue to use these services on an ongoing basis.

D. The MOHELA allowed the construction manager of the parking lot expansion project to submit two bids and perform construction work on the project, which violates Chapter 8, RSMo.

Section 8.683, RSMo, states that a public owner shall not permit the construction manager on a project to bid on or perform any of the actual construction on a project for which he/she is acting as construction manager. A public owner is defined to include, among other things, any authority of the state.

The construction manager for the parking lot expansion project submitted the lowest of the three bids for the asphalt work and was awarded the job at a cost of $51,545. The construction manager also submitted a bid for the concrete work; however, it was not the lowest bid, so the construction manager was not awarded the job.

As construction manager, this contractor, along with MOHELA's real estate property manager, evaluated the various bids on the parking lot expansion project and made recommendations to the authority as to who should be awarded the project. The construction manager should not have been allowed to submit bids for any of the work on this project since state law does not allow construction managers to bid or do work on the projects they have been hired to manage. Such a prohibition would also be a good guideline to follow to ensure the construction manager's independence.

E. Copies of contracts with the architectural firm and consulting firm (hired at a cost of about $400,000 and $50,000, respectively) for services related to the MOHELA headquarters building project could not be located. The current Executive Director believed that there might not have been a contract with the consulting firm; however, he was certain that the MOHELA would have had a contract with the architect.

Without the preparation and maintenance of formal contracts, there is not adequate documentation to support what services were to be performed or how the companies were to be compensated. Written contracts or agreements are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. In addition, the Secretary of State (SOS) has established record retention schedules that require public entities to retain construction/capital improvement-related contracts for 10 years after susbstantial completion. A retention period of 10 years appears to be a good guideline to follow to ensure documention is properly retained.

The MOHELA established a procurement policy in March 2007, which includes provisions regarding the procurement/bidding of construction services, the acquisition of real property, and the entering of long-term leases.

WE RECOMMEND the MOHELA:

A&B. Ensure competitive bids/proposals are solicited for construction projects in accordance with its current procurement policy. In addition, the authority should be more diligent in planning and timing future construction projects to correspond with current and applicable financial obligations.

C. Consider periodically rebidding the real estate property management services, if the authority continues to use these services on an ongoing basis.

D. Ensure construction managers are not allowed to bid or perform any construction work on the projects they have been hired to manage.

E. Ensure contracts and other documentation related to its construction projects are prepared and retained.

AUDITEE'S RESPONSE

A&B. The Authority has taken numerous actions to address these concerns. In March 2007, the Authority implemented a formal written procurement policy, which covers capital projects, construction projects and real property acquisition or leases as well as other goods and services. The procurement policy requires competitive bidding and appropriate financial planning for future construction projects. The procurement policy also includes and requires compliance with the Authority's Policy Governance Manual guidelines related to construction projects. The relevant Policy Governance Manual sections, as approved by the board, are as follows: Section 4.5.3 ("The Executive Director shall not acquire real property, lease real property or voluntarily encumber real property without prior approval by the Board"); Section 4.5.4 ("The Executive Director shall not make a long term lease on property unless prior approval of the Board"); and Section 4.5.6 ("The Executive Director shall not begin capital projects without a realistic operational plan" that has been approved by the board).

C. The Authority concurs.

D. The Authority has no current plans to undertake any construction projects. If in the future the Authority undertakes a construction project, it will take all reasonable steps to ensure that the project complies with applicable laws and regulations, as well as the Authority's own policies and procedures.

E. As noted above (A & B), the Authority has taken numerous actions to address this issue.

5. Expenditures

Competitive bids/proposals were not solicited for various expenditures noted and written contracts to support some expenditures were not prepared. Other expenditures were noted which did not appear to be a necessary or prudent use of authority funds. Also, some expenditures were not properly accounted for and/or supported by adequate documentation. In addition, a formal, documented marketing plan has not been established to support expenditures incurred in promoting the authority's services/products.

A. The MOHELA had no formal procurement policy prior to March 31, 2007. As a result, during the past three fiscal years, various expenditures were noted in which competitive bids (or competitive proposals, in the case of professional services) were not solicited and/or retained. Examples include the following:

Item	Cost
Attorney services	$1,752,483
Various public relations and marketing services	924,254
Office supplies	716,779
Automated loan data exchange services	455,016
Computer equipment	444,073
Internal auditing services	345,656
Marketing sponsorship	275,000
Bulk mail services	218,296
Promotional items	199,758
Computer security services	45,241
Collection agency services	24,833

MOHELA officials indicated that some of these services were obtained from sole source providers; however, documentation justifying these situations was not maintained. Also, office supplies were last bid in fiscal year 2003, but not rebid since that time. MOHELA officials indicated that office supplies were not rebid and computer equipment bids were not documented because the authority did not have a procurement policy in place; therefore, rebidding products/services and maintaining bid documentation was not required.

In addition, we noted that the MOHELA did not go through a formal request for proposal (RFP) process to procure trustee bank services during 2003. While a competitive analysis was performed of these services, it was only done on a select few companies and it was not based on current information for all the companies considered. The trustee bank currently receives fees totaling about $750,000 annually for its services.

Further, the bulk mail services and computer security services noted above were not supported by written contracts or agreements for the three fiscal years ending June 30, 2007.

The procurement of competitive bids/proposals for significant expenditures helps ensure that the authority receives fair value by contracting with the lowest and/or best bidders. In addition, written contracts or agreements are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Written contracts should specify the services to be rendered and the manner and amount of compensation to be paid.

In March 2007, the MOHELA established a formal procurement policy. This policy requires the competitive procurement of goods and services that cost over an established threshold, and includes various provisions, including when advertising for bids/proposals is required and the exceptions to the policy (i.e., emergency or sole source procurements).

B. In the fall of 2004, two separate consultants were interviewed and subsequently hired by the MOHELA Board to assist the authority with strategic planning and corporate governance. One consultant was retained specifically to work with senior management in developing/planning the strategic direction of the organization, and for these services this consultant was paid over $233,800 during fiscal years 2005 and 2006. The other consultant was retained to help rewrite the board's policy governance manual and continue to help update and revise it over time. This consultant was paid over $52,000 from fiscal year 2005 through March 2007.

Similar to some other expenditures noted in this report, the MOHELA did not go through a formal RFP process when procuring these consulting services. In addition, the authority did not enter into written contracts with either of these two consultants. The authority paid for these services as each project/work phase was completed or as a monthly retainer.

The strategic planning consultant was invited to make a presentation to the board in the fall of 2004, based on the recommendation of a board member (a current MOHELA executive) who had previously worked with the consultant in the capacity of employer/employee and as a contracted consultant. According to that MOHELA official, he recommended the consultant because this individual's knowledge/skills were exceptional and he was uniquely qualified in the area of strategic planning.

The corporate governance consultant was asked to also give a presentation at the same board meeting based on having worked for the authority in the past. According to the MOHELA official, both consultants were subsequently hired because the board felt that by having both consultants work together the authority would get the best strategic planning package. However, there was no mention of this hiring decision in the board's open meeting minutes.

We were told that no contracts were signed with these consultants because it was believed that it would be easier to terminate these consulting arrangements, if desired. However, written contracts with consultants are desirable to clarify the terms of the agreement, including the services (or deliverables) to be provided by the consultant and the manner and amount of compensation to be paid.

C. In the past three years, the MOHELA has incurred the following expenditures that do not appear to be a reasonable or prudent use of its funds:

- More than $46,000 was expended on the annual MOHELA Board retreats. These retreats were attended by board members, executive staff, and, in some cases, board members' spouses. While authority business was conducted at each of these retreats, the extent and nature of some of the costs incurred at these events were questionable.

Two of these annual retreats (in November 2004 and 2005) were held at a luxury resort south of Branson. The cost of the November 2004 retreat totaled at least $12,334, and included $6,605 in room charges, $4,421 catering charges, and $1,308 in other charges. According to the documentation available, the guest room charges were for two nights and ranged from $319 to $409 per night. In addition, more than $1,500 was spent related to alcoholic beverages. The cost of the November 2005 retreat totaled at least $16,596, and included $11,685 in room charges, $3,871 in catering charges, and $1,040 in room service and other charges. The expenditures noted above related to these two retreats do not include any transportation expenses incurred or reimbursed to MOHELA board members or officials in traveling to and from these functions.

While the November 2006 annual retreat was held in St. Louis, we noted at least $17,398 in costs were incurred related to this retreat, including $3,403 in meeting room and lodging costs, $8,120 in catering charges, and $5,875 in meal and entertainment expenses at a local dinner theatre. The catering expenses included over $1,200 for alcoholic beverages. The amount paid to the dinner theatre involved 50 people which included various board members, MOHELA executives/staff, clients, and some spouses.

- At least $28,716 was expended on annual employee holiday parties during the past three years, and included $15,842, $4,975, and $7,899 incurred on parties held in December 2004, 2005, and 2006, respectively. The parties were planned for approximately 275 to 320 guests, and the costs incurred included $2,741 for 645 drink tickets and $2,545 for a 20 percent hotel service charge (related to the December 2004 party), $575 for a disc jockey, and $500 for a magic show.

- $13,126 was expended for fitness center memberships and weight loss program fees for various employees.

- $9,385 was expended in December 2006 for 387 holiday wreaths which were distributed to various colleges and universities, lending institutions, and board members. In addition, more than $1,700 was expended on greeting cards.

- Over $7,320 was expended in the fall of 2005 for an employee picnic/outing at Six Flags. The costs incurred paid for a catered meal, 96 parking passes, and entrance to the park for 231 people.

- $4,135 was expended in October 2005 for two top executives' memberships and other charges to a local luncheon club. Varying amounts were paid in other months relating to these memberships.

- $2,419 for three catered senior staff meetings.

- $2,183 for 65 college representatives to attend a catered meal during a Federal Student Aid conference in Las Vegas. This included $240 in costs to transport the college representatives to and from the restaurant.

In addition to the expenditures listed above, we noted various other expenditures that might be considered questionable. These included small gift cards for some employees, various meals for employees that were not on travel status, holiday gifts to board members, and flowers for grieving employees. Additionally, the MOHELA paid for two massage therapy students to perform free massages at an annual student financial aid personnel fall conference. We were told the massages were intended to be a means or inducement to attract current and potential customers to the authority's booth at the conference.

The public places a fiduciary trust in MOHELA officials to expend authority funds in a necessary and appropriate manner. The MOHELA should ensure its funds are spent only on items which are necessary to support its mission and maintain its operations/activities.

D. Some expenditures were not accurately reflected on the authority's accounting records.

1) As noted above, various instances were noted in which food or meal expenses were incurred (besides those incurred by MOHELA employees while traveling on business). However, the MOHELA has not established a separate account within its accounting system to track these types of food/meal expenses; therefore, the authority was unable to provide us information regarding the extent of such expenses. Currently, the MOHELA charges all food/meal purchases, including catered meals, meal charges at local restaurants, etc., as well as business-related travel meals, to the travel and entertainment expense account in its accounting system.

   The MOHELA should establish a separate account to track food/meal expenditures incurred locally to better monitor such expenses. While a certain level of food/meal expenses may be justified, the authority needs to be able to assess these costs in terms of their importance compared to its other operational needs.

2) Some procurement card expenditures were not charged to the correct expenditure code. For example, the holiday wreaths and card purchases noted above, research books, guides purchased for the members of the MOHELA Board to assist them in their duties/responsibilities, and office supplies paid with procurement cards were all charged to the travel and entertainment expenditure account code.

Expenditure misclassifications can negatively affect the budget process and result in inaccurate and inconsistent presentation of financial activity. Such misclassifications can also impact MOHELA's ability or efforts to monitor certain types of expenditures. The MOHELA should ensure that items purchased with procurement cards are charged to the correct expenditure code.

E. Various concerns were noted regarding the documentation required and/or maintained to support some expenditures.

1) The MOHELA did not always receive adequate supporting documentation prior to paying invoices. One of the examples noted included a $198,514 payment to a financial consulting firm hired in 2006 to review the financial feasibility of the Lewis and Clark Discovery Initiative. This payment was made in August 2006 and related to a progress billing through May 31, 2006. Though required by the related contract, a detailed invoice was not provided by the consulting firm or required by the authority prior to payment.

The related contract provided that the consultant would bill only for hours worked on the project and certain reimbursable expenditures; however, the invoice submitted to the authority did not document the hours worked on the project through the progress billing date. The billing reflected only the total amount billed for the project and the total amount of reimbursable expenses owed at that date. However, it should be noted that the final invoice, in the amount of $60,771, related to this contract work included detailed time and expense documentation as provided by the contract.

In addition, the strategic planning consultant discussed previously was paid varying amounts (from $12,000 to $72,000) in different months from January 2005 through January 2006 for various services; however, the related invoices provided little or no detail, and it was unclear how the amounts owed were determined.

In addition, we noted over $19,300 in other payments made without adequate or detailed supporting documentation, including the costs related to the December 2005 board retreat mentioned above.

The MOHELA should ensure adequate documentation is required and maintained to support and ensure the appropriateness of goods/services being billed and paid from authority funds.

2) Procurement cards are assigned to various MOHELA executives and staff, and these cards can be used to charge business expenses incurred. Expense reports must be filled out to support any procurement card purchases and any expenses over $10 must be supported by a receipt.

A review of some procurement card purchases disclosed that adequate supporting documentation was not always submitted to support these expenditures. In some instances, receipt slips were not submitted for items purchased. In other instances, only a credit card charge slip was submitted, rather than a detailed invoice or receipt slip. Although the authority only requires the credit card charge slips to support the costs being charged, detailed invoices or receipt slips would improve MOHELA's ability to review these charges and provide more documentation of the items being purchased.

The MOHELA should require employees to submit detailed invoices/receipt slips to support any procurement card expenditures incurred. Without adequate supporting documentation, the authority cannot ensure the expenses being charged are reasonable, necessary, and in accordance with established policies.

3) The MOHELA does not issue cell phones to employees, but instead pays a monthly cell phone allowance to various employees who need a cell phone to meet their job responsibilities. As of February 2007, the MOHELA paid almost $3,000 per month (or about $36,000 annually) to 28 employees in cellular phone allowances ranging from $40 to $200 per month. There was no standard calculation used or other documentation maintained to support how the individual cell phone allowances were determined.

According to a MOHELA official, cell phone allowances are provided because it is believed that doing so is more cost-effective than providing cell phones to those employees. The allowances the individual employees receive are based on the amount of usage needed, the employee's position, and if the employee would need to be easily contacted through different media types (i.e., a blackberry).

The MOHELA should periodically review the cell phone allowances paid to ensure they are reasonable and approximate the actual expenses incurred. This review should also be documented.

F. The MOHELA does not have a formal, documented marketing plan. In addition, the authority has not performed an analysis or other studies to determine the best way(s) to promote or advertise its services/products.

The Business Development Department is responsible for the authority's marketing/advertisement efforts, and had a fiscal year 2007 budget of more than $250,000 for promotional/marketing purposes. That department has not developed a formal, documented marketing plan and has not performed any analyses or other studies to determine how to invest its marketing monies. The lack of a plan or other guidance could result in ill-advised marketing expenditures. We noted that during the last three years, this department paid more than $250,000 (out of a total marketing budget of about $850,000 during those three years) for radio advertisements on two radio stations during broadcasts of St. Louis Cardinal baseball games. To determine the effectiveness of this marketing effort, a special 1-800 telephone number and a special Internet website address were created to track the number of inquiries resulting from these advertisements. According to an official of that department, that special telephone number and website received only 5-10 inquiries in total. These radio advertisements were discontinued after the 2006 baseball season, at least in part, because of these tracking results.

A study(ies) should be conducted to help the authority determine the most beneficial use of its marketing dollars and establish a well-informed, formal marketing plan.

WE RECOMMEND the MOHELA:

A&B. Ensure competitive bids or proposals are solicited for the purchase of goods and services, including services of consultants, in accordance with the current procurement policy. Recurring purchases should be periodically rebid. If the purchase is a sole source situation, the related circumstances should be fully documented. In addition, the authority should ensure written contracts are prepared to formalize any purchase or service agreements entered into.

C. Ensure expenditures are limited to those which are a necessary and prudent use of authority funds.

D. Establish a separate expenditure code to account for, and monitor the extent of, food/meal expenditures incurred (other than those incurred by employees while traveling on business). In addition, the authority should ensure procurement card purchases are charged to the correct expenditure code.

E. Ensure adequate supporting documentation is submitted prior to paying all invoices, including those for procurement card purchases. In addition, cell phone allowances should be periodically reviewed and evaluated to ensure they approximate the actual expenses incurred by the applicable employees.

F. Determine the extent of resources it should invest in its marketing efforts and establish a formal marketing plan.

AUDITEE'S RESPONSE

A&B. The Authority has taken numerous actions to address these concerns. In March 2007, the Authority implemented a formal written procurement policy, which requires competitive bids for the purchase of goods and services. The policy requires the usage of a purchasing justification form. The policy also includes specific documentation requirements for each type of solicitation required under the policy. As it relates to sole *source procurement, the policy requires that a written justification be prepared containing narrative comments stating the reason the purchase is considered a sole source selection, a description of the selection process, and an explanation of how the price was determined to be reasonable. The policy permits sole source procurement in the following circumstances: an emergency situation as determined by the appropriate member of senior management and approved by the CEO, CFO or Controller; proprietary supplies or services available only from the manufacturer or a single distributor; a determination, based on past procurement experience, that only one distributor or servicer services the region in which supplies are needed; supplies or services are available at a discount from a single distributor or servicers for a limited period of time; the parts are required to maintain the validity of a warranty; additions to a system must be compatible with the original equipment; factory authorized maintenance must be utilized in order to maintain validity of a warranty; the materials are copyrighted and are only available from the publisher or a single distributor; or the services of a particular provider are unique, e.g., attorneys, entertainers or authors. The Authority will ensure written contracts are prepared for all appropriate purchase and service agreements. The Authority has designated an internal procurement officer to monitor compliance with the procurement policy.*

C. *The Authority concurs.*

D. *The Authority has established a separate expenditure code (4171 Local Food/Meals) to account for and monitor the extent of food/meal expenditures incurred locally. The code and all expenditures incurred under it will be monitored monthly by accounting and department management. In addition, expenditures under the new code will be analyzed and evaluated at least annually as a part of the budgeting process.*

E. *The Authority requires submission of appropriate supporting documentation prior to paying invoices and except for a few instances noted in the Management Advisory Report has received detailed supporting invoices or other appropriate documentation for purchases. As noted in the Management Advisory Report, the Authority has already demonstrated instances requiring more detailed documentation for purchases. This is the result of the implementation of additional management requirements to ensure all future purchases have the appropriate level of documentation. As further noted in the Management Advisory Report, the Authority requires receipts for procurement card purchases over $10. In addition, because the Authority uses an online, secure procurement card product, the Authority's accounting management, staff with procurement cards, and their approving supervisors, have access to extensive online detail of procurement card expenses. The Authority is currently reviewing the cell phone allowance policy and at a minimum will evaluate to ensure that current allowances approximate actual expenses incurred by the employee.*

F. *The Authority currently maintains and manages a Sales Plan and an overall, comprehensive budget. These two mechanisms drive the Authority's marketing practices. The Authority is currently finalizing an overarching Marketing plan for all business development and marketing activities on behalf of the Authority. It is expected that this plan will be completed no later than October 31, 2007.*

6. Property Records and Related Controls

Various concerns were noted regarding the MOHELA's capital asset/property records and related procedures. The MOHELA does not adequately account for or track many property items it owns, and periodic physical inventories of these assets are not performed. In addition, most of the items are not identified with a tag or other device identifying authority ownership. Furthermore, adequate records and procedures have not been established to account for and authorize the disposition of property items, and concerns were noted regarding the sale of such property items.

A. The MOHELA has not established adequate records to account for, track, and control the property items it owns. At the time of our review, the authority did not have a comprehensive listing of its property items, with its accounting records only including those capital assets costing at or above its current capitalization threshold of $10,000. Based on this criteria, as of January 2007, only 86 property items were included on the capital asset listing, with those mainly consisting of its headquarters building and parking lot, vehicles, and large computer equipment items.

The only items costing under $10,000 that were being tracked were laptop computers assigned to various employees and computer equipment issued to staff working from their homes. However, we noted the listing maintained of laptop computers was not up-to-date, with two former employees (who left employment during fiscal year 2006) still shown as being assigned those equipment items. In addition, while the MOHELA began tracking computer equipment issued to staff working from their homes in March 2007, other office furniture and equipment items purchased for these employees' home offices were not being tracked.

In addition to these recordkeeping concerns, periodic physical inventories are not performed of any of the property items recorded or being tracked, and most items are not identified with a tag or other device identifying them as MOHELA property. Only laptop computers were tagged in this manner.

15 CSR 40-2.031 requires state agencies to account for property and equipment items costing over $1,000. In addition, this regulation requires agencies to ensure that controls are adequate over property items under this threshold if they are considered attractive and subject to theft or misuse. Other property items under the $1,000 threshold amount not considered sensitive are required to have a tag designating the agency's ownership. Further, each agency is required to perform

an annual physical inventory of its property items and reconcile this inventory to its records. These provisions would suggest that the authority's records and controls related to its capital assets should be reevaluated and improved.

Adequate capital asset records and procedures are necessary to secure better internal controls, safeguard assets which are susceptible to loss, theft, or misuse, and provide a basis for determining proper insurance coverage. If the MOHELA decides to maintain the capitalization threshold at $10,000, it should establish adequate controls over property items below that level.

B. The MOHELA has not established adequate records and procedures to account for the disposition of capital asset/property items or to ensure such dispositions have been properly authorized. In addition, concerns were noted regarding the sale of these items.

At the time of our review, no formal policy/procedures related to the disposal of property items existed nor was documented supervisory/management approval required. According to authority officials, when a property item with an original cost of $10,000 or more is disposed of, the accounting department is notified (either verbally or by e-mail) by the applicable division and the asset is removed from the capital asset listing. No other documentation or approval authorizing the disposition is required. In addition, no record or documentation is maintained for any items disposed of which cost below the current $10,000 capitalization threshold.

According to MOHELA's records, from July 1, 2003 through December 31, 2006, the authority disposed of over 1,200 property items with an original cost totaling more than $3.8 million. Most of these items were recorded on the property records before fiscal year 2002, when the current capitalization threshold was raised to $10,000. No records were maintained to document the manner in which these assets were disposed of (i.e., sold, discarded, given away, etc.). It appears many of these items were disposed of during or around October 2003, when the lease on the prior headquarters building expired. Although a MOHELA official could not recall whether any of these assets were sold, that official did indicate that most of the disposed items were old and had little or no value. We could not verify the validity of this statement. We were further told that the authority found someone to remove the old/worthless property items from the building for no charge; however, that authority official could not remember who removed the items.

In the past few years, some items have been sold and it is MOHELA's informal policy to offer any surplus or unneeded property items for sale to its employees (or members of their immediate families) and not the general public. The MOHELA has held two furniture and equipment sales in recent years (in April 2002 and August 2006) and one sale of fleet vehicles (spring of 2006). According to an authority official, the furniture and equipment items sold were priced between $5 and $40 and some items were given away due to them having very little value. Since the original purchase price of most of these items was less than $10,000, they were not on MOHELA's capital asset listing and the records related to those items disposed of in this manner were minimal or nonexistent. We were told that the proceeds from each of the furniture/equipment sales were minimal and were given to charity. Regarding the sale of vehicles, six vehicles were sold to employees at prices consistent with the Kelley Blue Book values at the time.

The MOHELA official stated that the policy to sell surplus/unneeded property items to employees rather than through a public auction is based on the belief that the cost of an auction would exceed any additional proceeds received from the sale of the assets. In addition, we were told it is simpler to only deal with employees when selling vehicles rather than someone from the general public. However, in the public sector the generally accepted practice of disposing of surplus/unneeded property items is through a public auction. Handling such sales in this manner helps to ensure sales proceeds are maximized and avoids the appearance of impropriety or favoritism.

The MOHELA should establish formal written policies and procedures related to the disposition of capital assets to ensure they are properly handled, approved, and recorded. In addition, the authority should consider selling any assets being disposed of through a public auction.

An internal audit issued in February 2007 also reported concerns regarding MOHELA's capital asset records and related procedures, including the current capitalization level, the lack of periodic physical inventories and identifying tags, and inadequate documentation of property dispositions. As of June 2007, MOHELA officials indicated that improvements are underway in this area.

WE RECOMMEND the MOHELA ensure:

A. Adequate and up-to-date capital asset/property records are maintained which include all pertinent information for each property item, including those items under the capitalization threshold. Assets should be properly tagged or otherwise identified as MOHELA property and a periodic physical inventory should be conducted and reconciled with the records.

B. Adequate records and procedures are established related to the disposition of property items. This should include preparing formal written policies in this area, including the requirement of management/supervisory approval of all dispositions. In addition, the authority should consider handling the sale of unneeded property items through public auction.

AUDITEE'S RESPONSE

A. *The Authority has previously tracked and tagged some computer devices and capitalized fixed assets. In June 2007, the Authority completed a physical inventory of all appropriate furniture, equipment, fixtures, computers and other property including items under the capitalization threshold. The Authority is in the process of implementing updated technology initiatives to further improve asset tracking. This technology will include asset tagging to ease in an annual inventory process.*

B. *The Authority has already developed and implemented a new form to track asset acquisitions, transfers and dispositions, which require accounting management and supervisory approval. Automated solutions for this form and process are also under consideration and review in conjunction with the technology initiatives discussed above. Management is in the process of developing formal written policies to further clarify fixed asset controls and procedures including the appropriate methods for disposition of fixed assets.*

7. Internal Audits

Several internal audits could not be completed and the reports issued in a timely manner due to management's delay in providing formal responses to the auditors. This resulted in the MOHELA Board not receiving the internal audit reports timely and a delay in the implementation of some audit recommendations.

In September 2004, the MOHELA decided to outsource its internal audit function and hired an outside auditing firm to provide these services. This auditing firm performed an initial risk assessment, and, as a result, several areas considered high risk were targeted for internal audit. The firm subsequently conducted eight internal audits related to information technology, human resources, various student loan processes, and various financial areas. The MOHELA ultimately paid this auditing firm over $345,000 for these internal audit-related services.

After the auditing firm finished fieldwork related to each audit, a draft report was sent to the authority official primarily responsible for the subject area being audited, along with a letter requesting that management responses be prepared and submitted to MOHELA's Executive Director/CEO within 30 days. That official would then be responsible for approving the responses and returning them to the auditing firm for consideration and inclusion in the final report. However, as reflected in the following table, these management responses were not prepared and returned to the auditors in a timely manner in five of the eight audits, causing delays of up to two years in getting the final audit reports completed and issued.

Title of Internal Audit	Date of Draft to MOHELA	Date of MOHELA Response	Date of Final Report
Review of Travel and Entertainment Expenses	01/14/05	08/04/06	10/13/06
Review of Capital Expenditures	01/04/05	01/19/07	02/02/07
Review of Purchasing, Accounts Payable and Cash Disbursements	01/14/05	01/19/07*	02/02/07
Review of Information Technology General Controls	11/14/05	7/11/06	10/13/06
Review of Loan Purchase Process and Master Promissory Note Verification Process	08/10/05	08/22/06	10/13/06

* Original responses were submitted on 10/02/06 and revised responses were submitted on 01/19/07.

MOHELA officials indicated the management responses were not submitted in a timely manner primarily due to the turnover of top executives. Though these draft audit reports were available to authority management internally, they were not given to members of the MOHELA Board until the reports were finalized. While some of the recommendations were implemented before the final audit reports were issued, some of the recommendations were only recently implemented and some have not been implemented as of June 2007.

Internal audits can be valuable management tools to ensure compliance with established policies and procedures, as well as to identify ineffective or inefficient operations. Therefore, internal audit reports and the related recommendations should be given a high level of consideration and priority, and steps should be taken to implement the recommendations in a timely manner.

In 2006, the MOHELA decided to reestablish its internal audit function and phase out its relationship with the outside auditing firm. Subsequently, the authority hired an internal auditor in May 2006, who currently reports any findings directly to the board. As of February 2007, all of the outsourced internal audit reports had been finalized and issued, and the internal audit function is now handled internally.

WE RECOMMEND the MOHELA ensure internal audits are given the appropriate level of management attention so they can be completed and issued on a timely basis. In addition, efforts should be made to ensure any related audit recommendations are addressed and implemented in a timely manner.

AUDITEE'S RESPONSE

The Authority has expanded the Policy Compliance and Internal Audit Department from one employee to six employees, including the addition of an auditor with a Certified Internal Auditor designation. Additionally, the Authority has established an Audit Committee of three board members who meet directly with the Authority's Internal Auditor as well as the external auditor. The Authority has also implemented an Internal Audit Report process for simultaneously submitting reports to the Authority's board members and Executive Director. Finally, the Executive Director's report to the board dated September 7, 2007, reflected that the Authority's Policy Compliance and Internal Audit Department has implemented audit follow-up procedures which will be performed on all prior external and internal audits and results reported to the board.

8. Vehicle Usage and Related Controls

Controls over the usage of MOHELA's vehicles could be improved. Complete and accurate usage/mileage records have not been maintained and no periodic review and analysis of miles driven and costs incurred related to these vehicles has been performed.

As of January 2007, the MOHELA owned ten vehicles, two of which are headquarters pool vehicles and eight that are assigned to Business Development Department staff due to their job duties requiring extensive travel to colleges and universities to promote the authority's services/products. A review of the usage and controls over these vehicles noted the following concerns:

A. Complete and accurate usage logs have not been maintained for some of these vehicles and no periodic supervisory review of the records has been performed.

Prior to June 2006, vehicle logs were not maintained for any of MOHELA's vehicles. Due to an internal audit recommendation, MOHELA's travel policy was revised and vehicle usage logs were established effective June 1, 2006. However, our review of these logs indicated they are not being maintained adequately.

We noted instances in which the total trip miles or ending odometer readings were not recorded, differences between the ending odometer reading of one trip and the beginning odometer reading of the next trip, and errors in calculating the total miles for some trips. The driver and destination/purpose of the trips were not consistently recorded on the pool vehicle logs. In addition, for one assigned vehicle, no detailed trip information was recorded in the log for five of seven months from June 2006 through December 2006; only the beginning and ending odometer readings for each month were recorded. Many, if not all, of these errors or recordkeeping deficiencies could have been discovered and corrected if there had been a periodic supervisory review of these usage logs.

Complete and detailed vehicle logs, reviewed periodically by a supervisor, are necessary to provide assurance that vehicles are used only for authorized purposes and that the vehicle logs are accurate and reliable. MOHELA's travel policy has recently been updated and now requires the name of the driver, date(s) used, beginning and ending odometer readings, destination, and purpose of use to be recorded for all trips in authority vehicles.

B. No periodic review and cost-benefit analysis of the mileage driven in the authority-owned vehicles is performed. Because no vehicle usage/mileage logs or similar records were maintained prior to June 1, 2006, the MOHELA has not tracked total miles driven or costs incurred each year for any of its vehicles. Without tracking this information, it is difficult to conclude whether it is cost-beneficial for the authority to own and maintain these vehicles rather than allowing its employees to drive their personal vehicles and be reimbursed for any business mileage incurred.

A periodic review and analysis of mileage driven and costs incurred for each authority-owned vehicle should be performed to ensure the use and ownership of these vehicles is appropriate and cost-beneficial.

WE RECOMMEND the MOHELA:

A. Ensure complete and accurate mileage/usage logs are maintained for all vehicles and include all necessary information as required by the current policy. In addition, a supervisory review of these records should be performed periodically to ensure they are properly maintained.

B. Conduct a periodic review and cost-benefit analysis of the mileage driven and costs incurred for each of its vehicles.

AUDITEE'S RESPONSE

A. Procedures have been implemented to ensure that Authority car mileage is logged on a day-to-day basis versus quarterly. These procedures should address any documentation issues that may have occurred in the past. Mileage information will be reviewed periodically.

B. When the most recent large fleet vehicle purchase was conducted in fiscal year 2006, the Authority purchased used vehicles (mostly 2005 Chevy Impalas) with over 20,000 miles. As a result, the cost of these used vehicles ranged from $11,950 to $15,000 each. Historically all but two of these vehicles have been assigned to business development staff, who travel extensively as a part of their duties. While no formal cost-benefit analysis has been performed on the eight vehicles for use by business development staff, the Authority is confident the cost was justified by the extensive use of the vehicles and the nature of those staff positions. The other two vehicles (a 2002 Ford Taurus and a 2005 Chevy Venture van) are used by many of the Authority's staff, who are required to *travel periodically on Authority business. The Authority has reviewed the usage of all of the fleet vehicles on at least an annual basis. The Authority will continue to monitor the usage and cost of these vehicles.*

9. Closed Board Meetings

The MOHELA Board's closure of some of its meetings may constitute a violation of state law.

During the past several years, according to the open meeting minutes, the MOHELA Board closed its meetings on at least 21 occasions, apparently believing that the matters discussed were of the nature that allowed the meetings to be closed pursuant to Section 610.021, RSMo, of the Missouri Sunshine Law. However, the closure of these meetings may not be in accordance with state law, including that section of the Sunshine Law.

Section 173.365, RSMo, in referring to the MOHELA, states, "Each meeting of the authority **for any purpose whatsoever** shall be open to the public" (emphasis added). The Sunshine Law generally allows public governmental bodies to close meetings based on certain criteria; however, it appears exceptions to the open meetings requirement are superseded by other laws requiring open meetings/records. Section 610.021, RSMo, of the Sunshine Law states "**Except to the extent disclosure is otherwise required by law**, a public governmental body is authorized to close meetings, records, and votes. . . " (emphasis added). Therefore, given this language and the requirement in Section 173.365, RSMo, that all meetings of the MOHELA Board are required to be open to the public, it does not appear the board is currently authorized to close any of its meetings.

In February 2006, the Missouri Attorney General's Office (AGO) filed a lawsuit against the MOHELA alleging that the board had violated the Sunshine Law in 2006. While this lawsuit was primarily targeting actions of the board in January 2006, related to the termination of its Executive Director/CEO, the AGO's legal filings argued that the MOHELA Board was prohibited from holding closed meetings pursuant to Section 173.365, RSMo. That lawsuit was settled in late December 2006, when the MOHELA Board agreed that various procedures and communications in January 2006 constituted violations of the Sunshine Law and it agreed to comply with the Sunshine Law in the future. However, it is our understanding this settlement was not intended to resolve the question of whether the MOHELA Board can legally close some meetings.

Since the settlement of this lawsuit, the MOHELA Board has continued to hold closed meetings, having gone into executive session at least two times as of June 2007.

It should be noted that during the initial survey phase of the audit, the State Auditor's Office (SAO) requested access to the closed meeting minutes of the MOHELA Board, considering a review of these records as pertinent and necessary for the completion of all planned/required audit work. On March 27, 2007, the SAO was formally advised that the board had decided not to provide the closed meeting minutes, based on the advice of legal counsel. On April 2, 2007, the SAO issued a subpoena demanding that these records be produced. The closed meeting minutes were not subsequently produced, and on April 12, 2007, the SAO filed a lawsuit in the Cole County Circuit Court to resolve this matter. This litigation is currently pending. Because we have not been allowed to review the board's closed meeting minutes, this has limited the scope of our work necessary to complete this audit and prevented us from considering any pertinent information contained in those minutes in our findings and conclusions.

WE RECOMMEND the MOHELA comply with Section 173.365, RSMo, and discontinue holding meetings that are closed to the public. If the board desires the legal authority to close its meetings pursuant to Section 610.021, RSMo, the board should pursue the necessary legislative change(s).

AUDITEE'S RESPONSE

The Authority conducts its affairs in strict compliance with the Sunshine Law's requirements. Section 610.021 of the Sunshine Law authorizes the Authority to close its meetings in relation to attorney-client communications, personnel matters, and other enumerated matters. Section 173.365, RSMo, provides that "[t]he proceedings and actions of the authority shall comply with all statutory requirements respecting the conduct of public business by a public agency." The Authority believes that this provision incorporates the Sunshine Law and, therefore, provides further support for the Authority to hold closed meetings. Moreover, Section 173.420, RSMo, provides, in relevant part, that nothing in the statutes governing the Authority "shall be construed as a restriction upon any powers which the authority might otherwise have under any laws of this state, but shall be construed as cumulative of any such powers." Accordingly, the Authority's governing legislation empowers it to close meetings in reliance on applicable Sunshine Law exemptions and other state laws protecting attorney-client communications. For the foregoing reasons, the Authority submits that it may hold meetings—including closed meetings—in accordance with the applicable provisions of the Sunshine Law.

HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

MISSOURI HIGHER EDUCATION LOAN AUTHORITY
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Missouri Higher Education Loan Authority (MOHELA) was created by the General Assembly of the state of Missouri through the passage of House Bill 326, which was signed into law on June 15, 1981. The MOHELA was established as a "public instrumentality and body corporate", and according to the authorizing legislation, was created "in order to assure that all eligible postsecondary education students have access to student loans that are guaranteed or insured, or both." The statutes relevant to the MOHELA are Sections 173.355 to 173.445, RSMo, and MOHELA's official stated mission is to eliminate barriers for students so they can access higher education. The MOHELA is statutorily assigned to the Missouri Department of Higher Education (DHE) and is required to file a report of its financial activity and indebtedness with the department annually.

The MOHELA owns and services student loans established by the Higher Education Act under the Federal Family Education Loan Program (FFELP), as well as supplemental (non–FFELP) loans. The authority handles the following types of student loans:

- Subsidized Stafford loans (loans made to students meeting certain financial needs tests, in which the government makes interest payments while the student is enrolled)
- Unsubsidized Stafford loans (loans made to students without regard to financial need, in which the government does not make interest payments)
- PLUS loans (loans to parents of dependent students, graduate students, or professional students)
- Consolidation loans (loans to borrowers to consolidate certain existing federal education loans)
- Supplemental/alternative (non-FFELP) loans (loans made to students who have reached the maximum available funding under FFELP)

The MOHELA issues bonds (taxable and tax-exempt) to finance the purchase of student loans. Tax-exempt bonds are used to purchase loans of Missouri residents or students of Missouri schools and result in lower interest rates for borrowers. The authority also provides other types of interest rate reduction such as reduction for borrowers in the public service field and reductions for borrowers paying through auto-debit directly from their bank accounts. In addition, the MOHELA also forgives loans based on certain criteria and provides various scholarship monies.

Since fiscal year 2001, the MOHELA has forgiven over $33 million in student loans, which represents the extent of this activity since its inception. In recent years, the MOHELA has transferred monies annually to the DHE to support the Gallagher Program (a grant/scholarship program), including at least $50,000 each year since fiscal year 2001 (over $295,000 was transferred for this program in fiscal year 2004). In addition, beginning in fiscal year 2007, MOHELA has chosen to pay default fees (a fee paid to the loan guarantor) which must be paid on guaranteed loans by either the borrower or the lender. As of March 2007, the MOHELA had paid default fees of over $2.4 million to the DHE (the MOHELA's primary guarantor).

Currently, the MOHELA can directly lend monies for PLUS, consolidation, and supplemental loans. However, the MOHELA does not have the statutory authority to directly issue Stafford loan monies. The authority services Stafford loans for lenders and purchases them from the lenders shortly before the borrowers start the repayment process. Since the MOHELA only buys these types of loans, and does not issue them, the authority is considered to be in the secondary student loan market.

The MOHELA is recognized as one of the largest nonprofit student loan secondary markets in the country by statistics gathered and maintained by the U.S. Department of Education. It is a leading holder and servicer of student loans with more than $5 billion in assets, and annual loan purchases in excess of $1.5 billion. In addition, the MOHELA has been granted "Exceptional Performer" status by the U.S. Department of Education, which allows the authority to obtain a 99 percent guarantee on defaulted loans, instead of the standard 97 percent.

During the 2007 legislative session, the Missouri General Assembly passed, and the Governor subsequently signed, Senate Bill 389 which became effective on August 28, 2007. The bill calls for the MOHELA to distribute $350 million to the state over the next six years to be used primarily for various construction projects at public colleges and universities throughout the state of Missouri. This plan, commonly referred to as the Lewis and Clark Discovery Initiative (LCDI), requires the MOHELA to sell some of its loans to fund the distributions. The first distribution of $230 million was scheduled to occur no later than September 15, 2007. On September 14, 2007, the MOHELA transferred the initial distribution of $230 million to the state of Missouri. A $5 million distribution is scheduled for the end of each quarter thereafter from December 31, 2007 through September 30, 2013. The authority can delay any of these payments if it will adversely affect either the services and benefits provided to borrowers or its own economic viability. In addition, the MOHELA will be credited any interest earned on these funds while they are being held by the state.

As of June 30, 2007, approximately $1.5 billion in student loans had been sold by the authority in anticipation of the LCDI. The student loans sold by the MOHELA generally represented loans that have a number of years left before they are liquidated, and the entities that have purchased these loans receive the annual interest that will be paid on them. In essence, MOHELA is selling the rights to the future interest revenues on these loans. This has allowed the MOHELA to sell these loans at a premium and realize a profit on these sales.

The MOHELA is governed by a seven-member board, the members of which serve five-year terms. This board is composed of five members appointed by the Governor, subject to the advice and consent of the Senate. Of these appointed members, two are representatives of higher education institutions (one public and one private) in Missouri, two are representatives of lending institutions in Missouri, and one is a representative of the public. The other two members are designated by statute, a member of the Missouri Coordinating Board for Higher Education (CBHE) and the Missouri Commissioner of Higher Education. In addition, the board has an emeritus member. Board members serve without compensation; however, they receive reimbursement for any expenses incurred in performing their duties. As of June 30, 2006, the Board consisted of the following members:

Name	Position	Term Ends	Sector	
Dr. Karen M. Luebbert	Chair	October 2008	Private Higher Education Representative	(1)
John W. Greer	Vice-Chair	October 2007	Lending Institution Representative	
Marilyn K. Bush	Treasurer	October 2006	Lending Institution Representative	(2)
Dr. James E. Ricks	Member	October 2009	Public Higher Education Representative	(3)
Dr. John F. Smith	Member	October 2010	Public Representative	(4)
Dr. Gregory G. Fitch	Member	No term limit	Commissioner of Higher Education	(5)
Gregory E. Upchurch	Member	No term limit	CBHE Designate	(6)
Allan W. Purdy	Member	No term limit	Emeritus	(7)

(1) Dr. Karen M. Luebbert resigned in October 2006. Dr. Robert H. Spence was appointed to fill this position in February 2007.

(2) Marilyn K. Bush resigned in September 2006, and was replaced in that month by W. Thomas Reeves. Mr. Reeves was elected Board Treasurer in November 2006.

(3) Dr. James E. Ricks resigned in September 2006, and was replaced in that month by Randy L. Etter. Mr. Etter was elected Board Secretary in November 2006; this position had previously been vacant.

(4) Dr. John F. Smith was elected Board Chair in November 2006.

(5) Dr. Gregory G. Fitch left the MOHELA Board when he resigned as Commissioner of Higher Education in June 2006. Dr. Fitch was replaced by Dr. Charles J. McClain from August to September 2006. Dr. Robert Stein replaced Dr. McClain in December 2006.

(6) Gregory E. Upchurch was elected Vice-Chair in November 2006.

(7) Allan W. Purdy was a member of the original board and served until he retired in 2004.

The MOHELA Board appointed Raymond H. Bayer, Jr. in June 2006 to serve as the Executive Director and Chief Executive Officer (CEO). Prior to that appointment, Mr. Bayer had served as interim Executive Director and CEO beginning in January 2006 to replace Michael J. Cummins. Other top administrative officials have been hired by the authority and are responsible for various duties/functions. The individuals who served in these positions and their annual salaries as of June 30, 2006, were as follows:

Name	Position		Annual Salary	
Raymond H. Bayer, Jr.	Executive Director and CEO	$	275,000	
Matthew McIntyre	Associate General Counsel		130,000	(1)
Quentin Wilson	Associate Director of Student Access & Success/Interim Chief Financial Officer (CFO)		155,000	(2)
William Shaffner	Associate Director of Business Development		133,250	
Mary Stewart	Associate Director of Loan Servicing Division		128,125	
Christian Lee	Vice President of Contract Services		113,881	
Susan Crump	Vice President of Administration		86,780	
Marvin Geiger	Vice President of Information Systems		153,996	(3)

(1) Matthew McIntyre resigned in April 2007. James Matchefts was hired as General Counsel to replace Mr. McIntyre in May 2007.

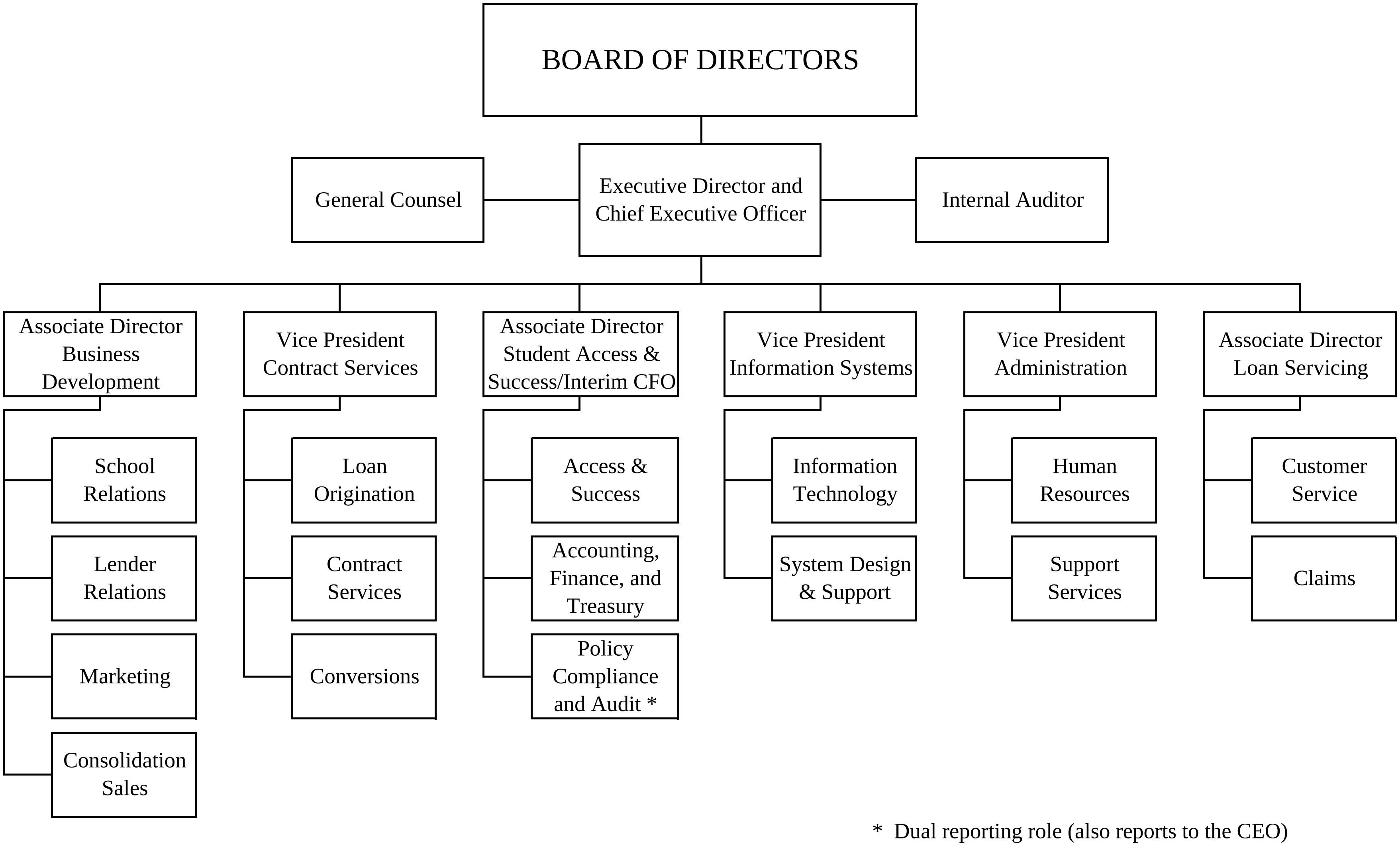
(2) Scott Giles was promoted to the Chief Financial Officer position in October 2006.

(3) Marvin Geiger resigned in July 2006 and was replaced in that month by Harry Lohse.

As of June 30, 2006, the authority employed 256 full-time and 4 part-time employees.

An organization chart and financial information follow.

MISSOURI HIGHER EDUCATION LOAN AUTHORITY
ORGANIZATION CHART
JUNE 30, 2006



Appendix A

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATEMENTS OF NET ASSETS AS OF JUNE 30, 2006 AND 2005 (In thousands)

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents:		
Restricted	$ 36,134	$ 30,282
Unrestricted	282,480	95,996
Total cash and cash equivalents	318,614	126,278
Investments held by Trustee—unrestricted		2,159
Investments held by Trustee—restricted	4,460	3,138
Total investments held by Trustee	4,460	5,297
Student loans receivable	50,629	43,917
Accrued interest receivable:		
U.S. Secretary of Education:		
Interest subsidy	8,732	5,400
Special allowance	35,079	19,024
Investments held by Trustee	752	362
Student loans receivable	87,889	60,799
Miscellaneous receivables and prepaid expenses	1,685	4,254
Deferred charges	235	266
Total current assets	508,075	265,597
LONG-TERM ASSETS:		
Investments held by Trustee:		
Restricted	2,585	2,585
Unrestricted	5,840	3,084
Total investments held by Trustee	8,425	5,669
Student loans receivable (less allowance for doubtful loans—$4,642 in 2006 and $3,286 in 2005)	5,187,545	4,326,188
Prepaid pension expense	3,225	3,413
Deferred charges—at cost less accumulated amortization of $2,573 in 2006 and $2,349 in 2005	4,933	4,032
Capital assets—at cost less accumulated depreciation of $3,998 in 2006 and $3,270 in 2005	14,470	14,413
Total long-term assets	5,218,598	4,353,715
TOTAL	$5,726,673	$4,619,312

LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES:		
Line of credit	$ 706,600	$ 85,200
Bonds payable—net	2,747	46,562
Accrued interest payable	21,146	13,782
Other liabilities	12,528	11,034
Total current liabilities	743,021	156,578
LONG-TERM LIABILITIES:		
Bonds payable—net	4,726,768	4,221,813
Arbitrage rebate payable	22,972	32,443
Total long-term liabilities	4,749,740	4,254,256
Total liabilities	5,492,761	4,410,834
NET ASSETS:		
Invested in capital assets	14,470	14,413
Restricted	129,839	112,310
Unrestricted	89,603	81,755
Total net assets	233,912	208,478
TOTAL	$5,726,673	$4,619,312

Source: The MOHELA's audited financial statements.

Appendix A

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003
(In thousands)

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents:		
Restricted	$ 30,393	$ 30,743
Unrestricted	587,473	240,955
Total cash and cash equivalents	617,866	271,698
Investments held by Trustee—unrestricted	4,795	503
Student loans receivable	32,677	26,281
Accrued interest receivable:		
U.S. Secretary of Education:		
Interest subsidy	4,853	4,421
Special allowance	5,977	4,022
Investments held by Trustee	696	480
Student loans receivable	50,140	43,916
Miscellaneous receivables and prepaid expenses	923	1,610
Deferred charges	282	262
Total current assets	718,209	353,193
LONG-TERM ASSETS:		
Investments held by Trustee:		
Restricted	5,723	5,723
Unrestricted	2,927	8,733
Total investments held by Trustee	8,650	14,456
Student loans receivable (less allowance for doubtful loans—$2,173 in 2004 and $1,423 in 2003)	3,775,830	2,953,062
Prepaid pension expense	3,800	3,936
Deferred charges—at cost less accumulated amortization of $2,093 in 2004 and $1,875 in 2003	4,272	3,442
Capital assets—at cost less accumulated depreciation of $2,905 in 2004 and $3,025 in 2003	14,899	15,453
Total long-term assets	3,807,451	2,990,349
TOTAL	$4,525,660	$3,343,542

LIABILITIES AND NET ASSETS	2004	2003
CURRENT LIABILITIES:		
Bonds payable—net	$ 9,458	$ 45,150
Accrued interest payable	8,113	7,220
Other liabilities	6,327	5,407
Total current liabilities	23,898	57,777
LONG-TERM LIABILITIES:		
Bonds payable—net	4,278,041	3,090,044
Arbitrage rebate payable	37,415	44,972
Total long-term liabilities	4,315,456	3,135,016
Total liabilities	4,339,354	3,192,793
NET ASSETS:		
Invested in capital assets	14,899	15,453
Restricted	113,523	87,794
Unrestricted	57,884	47,502
Total net assets	186,306	150,749
TOTAL	$4,525,660	$3,343,542

Source: The MOHELA's audited financial statements.

Appendix A

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

STATEMENTS OF NET ASSETS
JUNE 30, 2002 AND 2001
(In thousands)

ASSETS	2002	2001
CURRENT ASSETS:		
Cash and cash equivalents:		
Restricted	$ 5,744	$ 4,180
Unrestricted	157,899	338,859
Total cash and cash equivalents	163,643	343,039
Investments held by Trustee:		
Restricted	-	24,799
Unrestricted		204,368
Total investments held by Trustee	-	229,167
Student loans receivable	21,128	20,539
Accrued interest receivable:		
U.S. Secretary of Education:		
Interest subsidy	5,266	5,552
Special allowance	2,664	1,284
Investments held by Trustee	440	146
Student loans receivable	44,843	41,674
Miscellaneous receivables and prepaid expenses	1,072	1,679
Deferred charges	249	259
Total current assets	239,305	643,339
LONG-TERM ASSETS:		
Investments held by Trustee:		
Restricted	29,739	5,723
Unrestricted	520	
Total investments held by Trustee	30,259	5,723
Student loans receivable	2,437,637	1,930,516
Prepaid pension expense	4,123	4,310
Deferred charges - at cost less accumulated amortization of $1,672 in 2002 and $1,483 in 2001	3,038	2,746
Capital assets - at cost less accumulated depreciation of $2,071 in 2002 and $3,934 in 2001	16,376	8,140
Total long-term assets	2,491,433	1,951,435
TOTAL	$2,730,738	$2,594,774

LIABILITIES AND NET ASSETS	2002	2001
CURRENT LIABILITIES:		
Bonds payable - net	$ 22,378	$ 52,267
Line of credit	95,000	9,482
Accrued interest payable	7,997	13,041
Other liabilities	4,730	4,216
Total current liabilities	130,105	79,006
LONG-TERM LIABILITIES:		
Bonds payable - net	2,438,127	2,390,912
Arbitrage rebate payable	35,934	18,000
Total long-term liabilities	2,474,061	2,408,912
Total liabilities	2,604,166	2,487,918
NET ASSETS:		
Invested in capital assets	16,376	8,140
Restricted	35,483	34,702
Unrestricted	74,713	64,014
Total net assets	126,572	106,856
TOTAL	$2,730,738	$2,594,774

Source: The MOHELA's audited financial statements.

Appendix B

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005 (In thousands)

	2006	2005
OPERATING REVENUES:		
Interest on student loans	$164,417	$113,661
U.S. Secretary of Education:		
Interest subsidy	32,573	20,446
Special allowance	101,101	51,178
Investment income—interest on cash equivalents and investments	8,322	7,137
Gain on sale of loans	20	2,639
Servicing fee income	428	369
Total operating revenues	306,861	195,430
OPERATING EXPENSES:		
Interest expense	211,704	116,255
Program participation fees	32,034	21,924
Salaries and employee benefits	17,928	16,605
Computer services	6,705	5,456
Postage and forms	3,963	2,833
Professional fees	2,161	1,671
Occupancy expense	1,782	1,627
Bond maintenance fees	1,680	1,219
Letter of credit fees	1,256	992
Depreciation	838	815
Reduction of arbitrage rebate liability	(3,336)	(312)
Other operating expenses	4,712	4,173
Total operating expenses	281,427	173,258
CHANGE IN NET ASSETS	25,434	22,172
NET ASSETS—Beginning of year	208,478	186,306
NET ASSETS—End of year	$233,912	$208,478

Source: The MOHELA's audited financial statements.

Appendix B

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003
(In thousands)

	2004	2003
OPERATING REVENUES:		
Interest on student loans	$ 95,944	$ 96,762
U.S. Secretary of Education:		
Interest subsidy	17,620	16,001
Special allowance	21,820	16,272
Investment income:		
Interest on cash equivalents and investments	4,003	7,898
Loss on investments held by Trustee	(109)	(181)
Loss on sale of investments	(30)	
Gain on sale of loans	916	1,892
Servicing fee income	374	344
Total operating revenues	140,538	138,988
OPERATING EXPENSES:		
Interest expense	58,696	63,232
Program participation fees	16,694	12,235
Salaries and employee benefits	15,777	13,448
Computer services	4,514	4,355
Postage and forms	2,595	2,247
Occupancy expense	1,260	1,537
Bond maintenance fees	1,094	989
Letter of credit fees	1,006	997
Depreciation	843	970
Professional fees	790	344
Provision for (reduction of) arbitrage rebate liability	(2,221)	11,476
Other operating expenses	3,933	2,981
Total operating expenses	104,981	114,811
CHANGE IN NET ASSETS	35,557	24,177
NET ASSETS—Beginning of year	150,749	126,572
NET ASSETS—End of year	$ 186,306	$ 150,749

Source: The MOHELA's audited financial statements.

Appendix B

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2002 AND 2001
(In thousands)

	2002	2001
OPERATING REVENUES:		
Interest on student loans	$108,255	$111,646
U.S. Secretary of Education:		
Interest subsidy	19,010	19,189
Special allowance	10,805	10,369
Investment income:		
Interest on cash equivalents and investments	4,446	8,331
Gain (loss) on investments held by Trustee	4,346	(161)
Servicing fee income	124	106
Total operating revenues	146,986	149,480
OPERATING EXPENSES:		
Interest expense	66,121	98,871
Provision for arbitrage rebates	21,118	9,157
Salaries and employee benefits	11,117	9,747
Program participation fees	9,628	7,046
Bond maintenance fees	6,259	4,311
Computer services	3,910	3,356
Letter of credit fees	1,025	1,056
Depreciation	793	794
Amortization of bond issuance costs	188	169
Other operating expenses	7,111	6,472
Total operating expenses	127,270	140,979
CHANGE IN NET ASSETS	19,716	8,501
NET ASSETS, BEGINNING OF YEAR	106,856	98,355
NET ASSETS, END OF YEAR	$126,572	$106,856

Source: The MOHELA's audited financial statements.