



WILLAMETTE UNIVERSITY

Independent Auditors' Report in
Accordance with OMB Circular A-133

May 31, 2010

(With Independent Auditors' Report Thereon)

WILLAMETTE UNIVERSITY

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
Willamette University

Compliance

We have audited the compliance of Willamette University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended May 31, 2010, except for the requirements discussed in the second paragraph of this report. Willamette University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Willamette University's management. Our responsibility is to express an opinion on Willamette University's compliance based on our audit.

We did not audit Willamette University's compliance with the requirements governing maintaining contact with borrowers and billing and collection procedures in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement. Those requirements govern functions performed by Educational Computer Systems Inc. (ECSI). Since we do not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ECSI's compliance with the requirements governing the functions that it performs for Willamette University for the year ended May 31, 2010, was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of ECSI's compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Willamette University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Willamette University's compliance with those requirements.



As described in items 10-01 and 10-02 in the accompanying schedule of findings and questioned costs, Willamette University did not comply with requirements regarding *Allowable Costs/Cost Principles and Procurement, Suspension, and Debarment* that are applicable to its Research and Development Cluster. Compliance with such requirements is necessary, in our opinion, for Willamette University to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Willamette University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2010.

Internal Control over Compliance

Management of Willamette University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Willamette University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Willamette University's internal control over compliance.

Requirements governing maintaining contact with borrowers and billing and collection procedures in the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement are performed by ECSI. Internal control over compliance related to such functions for the year ended May 31, 2010, was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of ECSI's internal control over compliance related functions.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 10-01 and 10-02 to be material weaknesses.

Willamette University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Willamette University's responses, and, accordingly, we express no opinion on the responses.



Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Willamette University as of and for the year ended May 31, 2010, and have issued our report thereon dated October 8, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 8, 2010, except as to the paragraph
relating to the schedule of expenditures of
federal awards, which is as of January 17, 2011

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Schedule of Expenditures of Federal Awards

Year ended May 31, 2010

	Federal CFDA number	Federal expenditures
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Student Financial Assistance Cluster:		
Department of education:		
Federal Pell Grant Program	84.063	\$ 1,671,967
Federal Work Study	84.033	477,598
Federal Work Study (ARRA)	84.033	144,969
Supplemental Education Opportunity Grant	84.007	527,863
Federal Perkins Loans	84.038	750,000
Academic Competitiveness Grant	84.375	148,625
National SMART Grant	84.376	205,500
TEACH	84.215	87,000
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Total Student Financial Assistance Cluster		4,013,522
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Research and Development Cluster:		
National Science Foundation:		
NSF Grant – Johnson/Starr	47.076	58,164
NSF Grant – Stewart/Stas	47.076	29,886
NSF Grant – A. Duncan	47.076	165,550
NSF Grant – Orr	47.076	13,175
NSF Grant – C. Smith	47.076	47,382
NSF Grant – Moore	47.076	4,444
NSF Grant – Millen (ARRA)	47.082	119,878
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Total Research and Development Cluster		438,479
		<hr/>
National Endowment for the Humanities:		
NEH – Jopp	45.169	6,806
NEH – Spalti	45.169	15,108
		<hr/>
Total National Endowment for the Humanities		21,914
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National Endowment for the Arts:		
NEA – Dobkins	45.024	3,452
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Total National Endowment for the Arts		3,452
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Department of Defense:		
Department of Defense	12.000	66,660
Department of State	19.xxx	135,446
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Total Research and Development Cluster		665,951
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Department of Education:		
National Writing Project	84.928	61,395
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Total Expenditures of Federal Awards		\$ 4,740,868
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See accompanying notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2010

(1) Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes all federal grants received by the University which had activity during the year ended May 31, 2010. This schedule has been prepared on the accrual basis of accounting and in accordance with OMB Circular A-133.

(2) Loan Program Administration

The University administers the following loan programs:

	<u>CFDA number</u>	<u>Outstanding balance at May 31, 2010</u>
Perkins loans	84.038	\$ 8,871,912

(3) Federal Family Education Loan Program (FFELP)

During the fiscal years ended May 31, 2010, the University processed the following amount of new loans under the FFELP (which includes Stafford Loans and Parents' Loans for Undergraduate Students):

	<u>CFDA number</u>	<u>Amount outstanding</u>
Stafford loans	84.032	\$ 19,562,337
Parents' loans for undergraduate students	84.032	<u>9,970,406</u>
Total		<u>\$ 29,532,743</u>

(4) Administrative Costs

The amount of Pell grant and Federal Work-Study disbursements shown on the schedule of expenditures of federal awards includes the current year administrative cost allowance of \$2,185 and \$99,000, respectively.

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Schedule of Findings and Questioned Costs

Year ended May 31, 2010

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
Material weaknesses: **No**
- (c) Noncompliance which is material to the financial statements: **No**
- (d) Significant deficiencies in internal control over major programs: **None reported**
Material weaknesses: **Yes**
- (e) The type of report issued on compliance for major programs: **Qualified opinion**
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- (g) Major programs: **Student Financial Assistance Cluster and Research and Development**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: None

(3) Findings and Questioned Costs Relating to Federal Awards: Yes

Finding: 10-01

Federal Program: Research & Development

Federal Agency: Department of Education (ED)

Award Year: 2009/2010

Criteria: The cost principles that apply to the Research & Development Cluster Circular A-21, which states, "salaries and wages charged to Federal awards are allowable to the extent that total compensation to the individual employee conforms to established policies of the institution, are consistently applied, and provided that the charges for work performed directly on sponsored awards have been determined in accordance with and supported by the provisions of A-21, section J.10 as follows: 1) Distribution of salaries and wages is based on payrolls documented in accordance with the generally accepted practices of the institution. 2) Apportionment of employees' salaries and wages which are chargeable to more than one sponsored agreement or other cost objective is accomplished by methods which – a) Comply with A-21, sections A.2 and C, b) Produce an equitable distribution of charges for employees' activities, and c)

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Schedule of Findings and Questioned Costs

Year ended May 31, 2010

Distinguish the employees' direct activities from their indirect activities. 3) The payroll distribution is based on an after-the-fact confirmation or determination that costs distributed represent actual costs. Confirmation should be by a responsible person with suitable means of verification that the work was performed. Confirmation by the employee is not required if other responsible persons make appropriate confirmations".

Statement of Condition: During testing, KPMG noted that Willamette University did not require all personnel being paid wages and benefits, funded by federal monies, to complete a percentage-of-effort statement. Of the 25 payroll expenditures, KPMG noted that only one employee properly filled out a percentage-of-effort statement. As such, this one employee was excluded from the questioned cost calculation below. The amount of questioned costs reflect all other salaries and wages charged to all grants, as well as the associated benefits and indirect costs charged based upon the wage and benefit amounts. In the event that procurement items serve as matching funds, this issue applies to those items as well.

Questioned Costs: \$163,446

Cause of Effect: The Research & Development Cluster is managed by a small department with limited resources. Time and effort reporting requirements were not properly communicated to individuals participating in Willamette University's 14 grants.

Recommendation: KPMG recommends that the University develop and implement a time and effort policy that complies with the minimum components of Circular A-21.

**Willamette University
Corrective Action**

Plan: The University has drafted a time and effort reporting policy and will begin implementation of the policy in fiscal year 2010/2011. In addition, the University will reorganize job responsibilities in the Accounting Office and establish a new position that will include grant administrative oversight

Finding: 10-02

Federal Program: Research & Development

Federal Agency: Department of Education (ED)

Award Year: 2009/2010

Criteria: The cost principles that apply to the Research & Development Cluster A-110, which states in 2 CFR, "all recipients shall establish written procurement policies." The Circular then further outlines the minimum components of such procedures, which includes areas such as competitive bidding and avoidance of purchasing unnecessary items.

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Schedule of Findings and Questioned Costs

Year ended May 31, 2010

Statement of Condition: During testing, KPMG noted that Willamette University was unable to provide a written procurement policy. This policy would apply to grant expenditures such as supplies, postage, contracted services, miscellaneous costs, as well as the associated indirect costs based upon these items. In the event that procurement items serve as matching funds, this issue applies to those items as well.

Questioned Costs: \$440,980

Cause of Effect: The Research & Development Cluster is managed by a small department with a limited volume of procurement activity. As this is the only federal cluster that would be subject to the requirements of Circular A-110, the University has not been aware of this compliance requirement. Although the University does have written policies related to travel costs, for general purchases they do not have a written policy as outlined above. As a result, all grant expenditures that are procurement items outside of travel expenditures are considered questioned costs.

Recommendation: KPMG recommends that the University develop a written procurement policy that complies with the minimum components of Circular A-110.

**Willamette University
Corrective Action
Plan:**

The University has strong controls over purchase approval authorizations and will draft and implement, in fiscal year 2010/2011, a purchasing policy that will comply with the requirements of Circular A-110.