



**WILLAMETTE UNIVERSITY**

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

May 31, 2011

(With Independent Auditors' Report Thereon)

# WILLAMETTE UNIVERSITY

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**Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on 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 Willamette University's (the University) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of the University's major federal programs for the year ended May 31, 2011. The University's major federal programs are identified in the summary of auditors' 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 the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We did not audit the 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 the University for the year ended May 31, 2011 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 the 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 the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB



Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2.

### **Internal Control over Compliance**

Management of the 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 the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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, 2011 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The 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 the 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 the University as of and for the year ended May 31, 2011, and have issued our report thereon dated October 7, 2011. 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

November 10, 2011, except as to the paragraph relating to the schedule of expenditures of federal awards, which is as of October 7, 2011

**WILLAMETTE UNIVERSITY**  
Schedule of Expenditures of Federal Awards  
Year ended May 31, 2011

	<b>CFDA number</b>	<b>Federal expenditures</b>
Student Financial Assistance Cluster:		
Department of Education:		
Federal Pell Grant Program	84.063	\$ 1,891,456
Federal Work Study	84.033	453,579
Supplemental Education Opportunity Grant	84.007	471,533
Federal Perkins Loans	84.038	730,264
Academic Competitiveness Grant	84.375	152,600
National SMART Grant	84.376	179,000
TEACH	84.215	103,000
Total Student Financial Assistance Cluster		3,981,432
Research and Development Cluster:		
National Science Foundation:		
NSF Grant – Tallman	47.076	76,884
NSF Grant – Stewart/Stas	47.076	7,350
NSF Grant – Wiltbank	47.076	5,825
NSF Grant – Kleinert	47.076	5,639
NSF Grant – Goldberg Edelson	47.076	6,955
NSF Grant – Fisher	47.076	16,620
NSF Grant – Orr	47.076	14,395
ARRA NSF Grant – Millen – REU	47.076	4,000
NSF Grant – C. Smith	47.076	69,996
NSF Grant – Moore	47.076	44,336
ARRA NSF Grant – Millen	47.082	88,185
Total National Science Foundation		340,185
NOAA	11.008	12,000
National Endowment for the Humanities:		
NEH – Jopp	45.169	11,983
NEH – Spalti	45.169	3,400
Total National Endowment for the Humanities		15,383
National Endowment for the Arts:		
NEA – Dobkins	45.024	73,008
Total National Endowment for the Arts		73,008
Department of State	19.xxx	93,651
Total Research and Development Cluster		534,227
Department of Education:		
FIPSE – Rhine	84.116B	167,023
National Writing Project	84.928	45,865
Total Department of Education		212,888
Total Expenditures of Federal Awards		\$ 4,728,547

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, 2011

**(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 fiscal year ended May 31, 2011. 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 program:

	<u>CFDA number</u>		<u>Outstanding balance at May 31, 2011</u>
Perkins loans	84.038	\$	8,657,997

**(3) Federal Family Education Loan Program (FFELP)**

Willamette University receives noncash federal financial assistance through the Direct Loan Program. The loans under these programs are made to eligible students directly from the federal government. The University's responsibility is to determine eligibility for the loans; thus, the amounts reported below are the amounts that students were eligible to receive.

	<u>CFDA number</u>		<u>Amount</u>
Stafford loans	84.032	\$	21,001,984
Parents' loans for undergraduate students	84.032		<u>11,114,854</u>
Total		\$	<u><u>32,116,838</u></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 \$2,525 and \$99,000, respectively.

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Schedule of Findings and Questioned Costs

Year ended May 31, 2011

**(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 that is material to the financial statements: **No**
- (d) Significant deficiencies in internal control over major programs: **Yes**  
Material weaknesses: **No**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings that 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 Cluster**
- (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: **No**

**(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:** 2011-01

**Federal Program:** Research and Development

**Grant Number:** 10-4400-7071

**Federal Agency:** Department of Education (ED)

**Award Year:** 2010/2011

**Criteria:** Nonfederal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the government wide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e.,

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Schedule of Findings and Questioned Costs

Year ended May 31, 2011

subawards to subrecipients), irrespective of award amount, are considered covered transactions.

**Statement of Condition:** KPMG noted that the University did not check the Excluded Parties List System (EPLS) Website prior to contracting with a vendor whose fiscal year expenditures exceeded \$25,000 and a control was not in place to detect this noncompliance.

**Questioned Costs:** \$39,650 that represents all expenditures to the vendor whose fiscal year expenditures exceeded \$25,000. However, the vendor was not suspended or debarred.

**Cause of Effect:** The Research and Development Cluster is managed by a small department with limited resources. The need to check the EPLS to ensure vendors are not suspended or debarred was not communicated to the Grant and Restricted Fund administrator, and no control was in place.

**Recommendation:** The University should check the EPLS Website prior to entering into new vendor relationships, and a control should be established in order to detect noncompliance.

**Willamette University  
Corrective Action  
Plan:**

The University will check the EPLS Website prior to entering into new vendor relationships.

**Finding:** 2011-02

**Federal Program:** Research and Development

**Grant Number:** DEB-0918241

**Federal Agency:** Department of Education (ED)

**Award Year:** 2010/2011

**Criteria:** Per the terms of the agreement between the University and National Science Foundation (NSF), the NSF has established specific reporting requirements that include the following:

1. Annual Performance reporting due May 2 of each year
2. Quarterly Federal Financial reporting due within 30 days of end of quarter

**Statement of Condition:** KPMG noted that the Annual Performance report was submitted on August 26, 2011; thus, not meeting the May 2, 1011 submission due date.

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Schedule of Findings and Questioned Costs

Year ended May 31, 2011

***Questioned Costs:*** There are no questioned costs relating to this finding.

***Cause of Effect:*** The Research and Development Cluster is managed by a small department, which has not effectively established and implemented internal controls to ensure reporting requirements are met.

***Recommendation:*** KPMG recommends that management strengthen its internal controls over reporting to ensure that required reports are submitted in a timely manner.

***Willamette University  
Corrective Action  
Plan:*** The University will strengthen its internal controls over reporting to ensure they are submitting required reports in a timely manner.