



PACIFIC UNIVERSITY

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

Year ended June 30, 2008

PACIFIC UNIVERSITY

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KPMG LLP
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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
Pacific University:

Compliance

We have audited the compliance of Pacific University with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* (Compliance Supplement) that are applicable to each of its major federal programs for the year ended June 30, 2008, except for the requirements discussed in the second and third paragraphs of this report. Pacific 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 Pacific University's management. Our responsibility is to express an opinion on Pacific University's compliance based on our audit.

We did not audit Pacific University's compliance with requirements governing maintaining contact with and billing borrowers 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 that are performed by Campus Partners. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. Campus Partner's compliance with the requirements governing the functions that it performs for Pacific University for the year ended June 30, 2008 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institution Servicers*. Our report does not include the results of the other accountants' examination of Campus Partner's compliance with such requirements.

We did not audit Pacific University's compliance with the requirements governing Reporting and Special Tests and Provisions 1 through 13 in accordance with the requirements of the Federal Family Education Loan Program (FFELP) as described in Section 84.032L of the Compliance Supplement (school as lender). These requirements govern the functions performed by Student Loan Xpress, Inc. Since we did 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. Student Loan Xpress, Inc.'s compliance with the requirements governing the functions that it performs for Pacific University for the year ended June 30, 2008 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program*. Our report does not include the results of the other accountants' examination of Student Loan Xpress, Inc.'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 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about Pacific 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 Pacific University's compliance with those requirements.

In our opinion, Pacific University complied, in all material respects, with the requirements referred to in the first paragraph above that are applicable to each of its major federal programs for the year ended June 30, 2008. 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 item 08-02.

Internal Control over Compliance

The management of Pacific 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 Pacific 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, 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 Pacific University's internal control over compliance.

Requirements governing maintaining contact with and billing borrowers in the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement are performed by Campus Partners. Internal control over compliance relating to such functions for the year ended June 30, 2008 was reported on by other accountants in accordance with U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of Campus Partner's internal control over compliance related to such functions.

Requirements governing Reporting and Special Tests and Provisions 1 through 13 in the Federal Family Education Loan Program as described in Section 84.032L of the Compliance Supplement (school as lender) are performed by Student Loan Xpress, Inc. Internal control over compliance related to such functions was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program* for the year ending June 30, 2008. Therefore, the scope of our work did not extend to internal control maintained at Student Loan Xpress, Inc. Our report does not include the results of the other accountant's examination of Student Loan Xpress, Inc.'s internal control over compliance related to such functions.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed



below, we identified a deficiency in internal control over compliance that we consider to be significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiency's, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 08-02 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Pacific University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Pacific University's response, and accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Pacific University as of and for the year ended June 30, 2008, and have issued our report thereon dated November 14, 2008. 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 for the information and use of the Audit Committee, the Board of Trustees, management of Pacific University, 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

March 16, 2009, except for the schedule of expenditures of federal awards, which is as of November 14, 2008

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

	Federal CFDA number	Federal expenditures
Student Financial Assistance:		
U.S. Department of Education:		
Perkins Loan Program – note 2	84.038	\$ 1,237,434
Federal Work-Study Program	84.033	648,468
Federal Supplemental Educational Opportunity Grant	84.007	228,273
Pell Grant Program	84.063	1,158,106
ACG Grants	84.375	58,625
Smart Grants	84.376	66,000
U.S. Department of Health and Human Services:		
Health Professional Student Loans	93.342	549,581
Total Student Financial Assistance		3,946,487
U.S. Department of Health and Human Services:		
National Institutes of Health - Gerome Research	93.172	40,664
Total U.S. Department of Health and Human Services		40,664
National Science Foundation:		
NSF Grant – MRI	47.049	296
NSF Grant – Weed Research	47.049	10,499
Total National Science Foundation		10,795
U.S. Department of Education:		
Upward Bound	84.047	137,878
Total U.S. Department of Education		137,878
U.S. Department of Agriculture:		
USDA Grant	10.26	25,278
USDA Summer Food Service	10.559	15,737
Total U.S. Department of Agriculture		41,015
Total Research and Development		230,352
Total expenditures of federal awards		\$ 4,176,839

See accompanying notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(1) Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the Schedule) includes all federal monies expended by Pacific University (the University) during the year ended June 30, 2008. This schedule has been prepared on the accrual basis of accounting.

For purposes of the Schedule, federal monies include all grants, contracts, loans, and loan guarantee agreements entered into directly between the University and agencies and departments of the Federal government as well as any federal awards passed through other governmental agencies. Federal awards are classified into major and nonmajor programs in accordance with the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The University's major federal program is as follows:

Major Program

Student Financial Aid Cluster – The student financial aid cluster includes certain awards to provide financial assistance to the University's students, primarily under the Federal Pell Grant, Federal Work Study, and Federal Supplemental Educational Opportunity Grant programs of the U.S. Department of Education. In addition, the University received awards to make loans to eligible students under the Federal Perkins Loan Program and federally guaranteed loans are issued directly to students by the University under the Federal Family Educational Loan Program (FFELP). All of these programs are considered for purposes of determining whether student financial assistance is a major program.

(2) Loan Program Administration

The University administers the following loan programs with outstanding loan balances as of June 30, 2008 as follows:

	CFDA number		Outstanding balance at June 30, 2008
Perkins loans	84.038	\$	6,053,099
Health professional loans	93.342		2,305,827

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(3) Federal Family Education Loan Program

During the fiscal year ended June 30, 2008, The University processed the following amount of new loans under the FFELP (which includes subsidized Stafford, unsubsidized Stafford, and PLUS Loans):

	<u>CFDA number</u>	<u>Amount</u>
Unsubsidized Stafford Loans	84.032	\$ 3,500,972
Subsidized Stafford Loans	84.032	5,033,944
Parent Plus Loans	84.032	2,310,065
Unsubsidized/School as Lender Stafford Loans	84.032	21,008,695
Subsidized/School as Lender Stafford Loans	84.032	9,943,257
Grad Plus Loans	84.032	5,790,268
School as Lender Program Activities	84.032	<u>981,317</u>
Total		<u>\$ 48,568,518</u>

The University is responsible only for the performance of certain administrative duties with respect to the loans under the FFELP, as these loans are sold to an independent financial institution shortly after the loan is made to the student. Accordingly, these loans are not included in the financial statements of the University and it is not practical to determine the balance of the FFELP loans outstanding to students and former students of the University under this program at June 30, 2008.

(4) Administrative Costs

The amount of Perkins loan and Federal Work-Study disbursements shown on the schedule of expenditures of federal awards includes the current year administrative cost allowance of \$58,914 and \$51,217, respectively.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **Yes**
Material weaknesses: **No**
- (c) Noncompliance which 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 which are required to be reported under Section 0.501(a) of OMB Circular A-133: **Yes**
- (g) Major programs: **Student Financial Aid Cluster**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,781,285**
- (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*: Yes (See Item 08-01)

Finding 08-01: Funds Held in Perpetuity

In performing our audit of the financial statements, we noted that a fund held in perpetuity in trust by an outside organization was more than inconsequentially undervalued. This issue was not prevented or detected by the University's internal controls as part of their normal review process. The University used an acceptable method to value the fund under generally accepted accounting principles, however, this method was using an incorrect fair value information that the University could have obtained from this outside party. We recommend that management obtain fair value information to adjust the balances of the fund held in perpetuity annually.

Views of Responsible Officials:

Management is aware of this matter and is committed to further improving the valuation of fund held by others by confirming annually with the trustee the fair value of the fund held in perpetuity.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

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

Finding: 08-02

Federal Program: Student Financial Aid Cluster

Federal Agency: Department of Education (ED)

Award Year: 2007-2008

Criteria: Per CFR Section 668.165, if an institution credits a student's account at the institution with Direct Loan, FPL, or FFEL funds, no earlier than 30 days before and no later than 30 days after crediting the student's account at the institution, the institution must notify the student, or parent of (1) the date and amount of the disbursement, and (2) the student's right, or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan. The requirement for FFEL funds applies only if the funds are disbursed by electronic funds transfer payment or master check.

Statement of Condition: The University was unable to provide evidence of the communications made to students/parents/borrowers informing them of the requirements set forth above for the period of time from July 1, 2007 to March 5, 2008 when the individual responsible for this procedure was employed at Pacific.

Questioned Costs: \$37,019,791

Cause of Effect: Per discussions with management, the Stafford Disbursement notification letters were sent electronically via email to the borrowers. It is Pacific's policy to retain all such emails on a shared network drive. However, from July 1, 2007 to March 5, 2008 the employee who was responsible for sending these emails did not retain documentation of this procedure. When the employee was terminated on May 9, 2008 and shortly after that date it became apparent that he did not retain the emails. Therefore, the University was unable to provide evidence that these notifications were sent for the selected students sampled.

Recommendation: KPMG recommends the University implement a policy that verifies all items to be included on the share file are properly included via monthly reconciliations. Additionally, KPMG suggests the University print a copy of all emails that are sent to students/borrowers and include in their files.

University's Response: We agree with KPMG in that we will verify that the shared file is properly and timely updated. In addition, we will also print a copy of the email notification sent to the student and keep them in a binder by year, by month, and by distribution date.