

PRELIMINARY

Oakland University

OMB Circular A-133
Reporting Package

Year ended June 30, 2003

Oakland University

OMB Circular A-133
Reporting Package

Year ended June 30, 2003

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Oakland University

Audited Financial Statements and
Other Financial Information

*Years ended June 30, 2003 and 2002
with Report of Independent Auditors*

Oakland University

Audited Financial Statements and
Other Financial Information

Years ended June 30, 2003 and 2002

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Oakland University
Rochester, Michigan

We have audited the accompanying basic financial statements of Oakland University, a component unit of the State of Michigan, as of and for the years ended June 30, 2003 and 2002. These basic financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Oakland University as of June 30, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2003 on our consideration of Oakland University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 1 to 10 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Oakland University taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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.

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Saginaw, Michigan
August 28, 2003

Oakland University

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Note 1: As defined in OMB Circular A-133, Student Financial Assistance programs and Research and Development programs are considered to be clusters of programs and, accordingly, have been classified as one program for testing purposes. Research and Development, Student Financial Assistance, and the U.S. Department of Education's TRIO Programs have been defined as major programs.

Note 2: Under the William D. Ford Federal Direct Loan Program, students and parents borrow funds directly from the federal government; the University is responsible for verifying student eligibility, electronically transmitting the loan records to the federal processor and distributing the loan funds directly to the student account or parent borrower. For the year ended June 30, 2003, Direct Student Loans totaled \$27,863,478 (\$12,085,565 subsidized and \$15,777,913 unsubsidized) and Direct Parent Loans for Undergraduate Students totaled \$1,002,206. These amounts were excluded from total federal expenditures when determining the dollar threshold for Type A and Type B programs.

Note 3: The University utilized the services of University Accounting Services, Inc. to administer the repayment of Federal Perkins loans and perform certain due diligence procedures. The University Accounting Services, Inc. Compliance Attestation Examination of Title IV Student Financial Assistance Programs report for the fiscal year ended June 30, 2003 was received and reviewed. No significant items of noncompliance or control weaknesses were noted. There was \$2,300,585 of Federal Perkins Loans (CFDA Number 84.038) outstanding as of June 30, 2003.

Total program disbursements under the Federal Perkins Loans Program for the year ended June 30, 2003 were as follows:

Student loans awarded	\$397,028
Administrative cost allowance	<u>7,542</u>
	<u>\$404,570</u>

The amount shown as Federal Perkins Loan Program loans and loan guarantees represents the amounts loaned by the University during the year and the administrative cost allowance, if any.

Note 4: The grant award amount is the Federal Pell Grant Program authorization based on the most recent ED255-6, Federal Pell Grant Program Statement of Account (dated June 30, 2003). Expenditures are the actual amounts incurred through June 30, 2003. The University will process amendments subsequent to year end to finalize the 2002-2003 award year.

Oakland University

Notes to Schedule of Expenditures of Federal Awards

(Continued)

Note 5: The following administrative cost allowances were received by the University:

Federal Perkins Loan Program	\$46,874
Federal Pell Grant Program	7,542
Federal Work-Study Program	555

Note 6: During the year, Oakland University transferred \$30,000 from the Federal Work-Study Program to the Job Location and Development program as well as \$39,428 to the Federal Supplemental Educational Opportunity Grants. These amounts were fully expended. The \$30,000 of expenditures is being reported as part of the Federal Work Study Program. The \$39,428 of expenditures is being reported as part of the Federal Supplemental Educational Opportunity Grants on the Schedule of Expenditures of Federal Awards.

Note 7: The accompanying Schedule of Expenditures of Federal Awards has been prepared generally on the accrual basis.

Note 8: The University has approved predetermined indirect cost rates that are effective for the year ended June 30, 2003. The base rate for on-campus research is 42 percent.

Independent Auditors' Report on Compliance and on Internal Control
over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Oakland University
Rochester, Michigan

We have audited the basic financial statements of Oakland University as of and for the year ended June 30, 2003, and have issued our report thereon dated August 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Oakland University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Oakland University in a separate letter dated August 28, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oakland University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal controls over financial reporting, which we have reported to management of Oakland University in a separate letter dated August 28, 2003.

This report is intended solely for the information and use of the Board of Trustees, management, 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.

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Saginaw, Michigan
August 28, 2003

Independent Auditors' Report on Compliance with Requirements
Applicable to Each of its Major Programs and Internal Control over
Compliance in Accordance with OMB Circular A-133

Board of Trustees
Oakland University
Rochester, Michigan

Compliance

We have audited the compliance of Oakland 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 June 30, 2003. Oakland 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 its major federal programs is the responsibility of Oakland University's management. Our responsibility is to express an opinion on Oakland University's compliance based on our audit.

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 Oakland 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 on Oakland University's compliance with those requirements.

In our opinion, Oakland 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 June 30, 2003.

We did not audit Oakland University's compliance with the requirements governing billing, recordkeeping, payment processing, reporting and due diligence functions for Oakland University's Federal Perkins Loan Program. Those requirements govern functions performed by University Accounting Service, Inc. University Accounting Service, Inc.'s compliance with the requirements governing the functions it performs for Oakland University was audited by another auditor, whose report was furnished to us. Based on our review of the other auditor's report, we

have determined that all of the compliance requirements that are applicable to Oakland University's Federal Perkins Loan Program are addressed either in our report or the report of the other auditor. Based on our review of the other auditor's report, we have determined that it does not contain any findings of noncompliance pertaining to the services that University Accounting Service, Inc. performs for Oakland University.

Internal Control Over Compliance

The management of Oakland University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Oakland University's internal control over compliance with 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 A-133.

The internal control policies and procedures relating to billing, recordkeeping, payment processing, reporting and due diligence functions for Oakland University's Federal Perkins Loan Program are performed at University Accounting Service, Inc. For these control categories, other auditors obtained an understanding of the design of relevant policies and procedures, determined whether they have been placed in operation and assessed control risk. The other auditor's report has been furnished to us; however, the scope of our work did not extend to these internal control policies and procedures established and maintained at University Accounting Service, Inc.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, 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.

PRELIMINARY

Saginaw, Michigan
August 28, 2003

Oakland University

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
Material weakness identified?	_____ Yes	_____ X	No
Reportable condition identified not considered to be material weakness?	_____ Yes	_____ X	None reported
Noncompliance material to financial statements noted?	_____ Yes	_____ X	No

Federal Awards

Internal control over major programs:			
Material weakness identified?	_____ Yes	_____ X	No
Reportable condition identified not considered to be material weakness?	_____ Yes	_____ X	None reported
Type of auditor’s report issued on compliance for major programs:	<u>Unqualified</u>		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ Yes	_____ X	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Cluster and Federal Programs</u>
	Research and Development
93.RD	U.S. Department of Health & Human Services
47.RD	National Science Foundation
84.RD	U.S. Department of Education
12.RD	U.S. Army
43.RD	National Aeronautics & Space Administration
12.RD	U.S. Air Force
20.108	Federal Aviation Administration
99.CRG-940276	North Atlantic Treaty Organization
10.961	U.S. Department of Agriculture
	Student Financial Assistance
84.007	Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.268	William D. Ford Federal Direct Loan Program
	U.S. Department of Education TRIO Programs
84.047A	Upward Bound

Dollar threshold used to distinguish between Type A and Type B programs:

\$330,000

Auditee qualified as low-risk auditee?	_____ Yes	_____ X	No
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Oakland University

Schedule of Findings and Questioned Costs
(Continued)

Section II – Financial Statements Findings

No matters were reported.

Section III – Federal Awards Findings and Questioned Costs

No matters were reported.

Oakland University

Summary Schedule of Prior Audit Findings

Year ended June 30, 2003

02-1 Federal Cash Draw downs

Condition

The University requested a draw down of \$25,000 on September 6, 2001 from the TRIO – Student Support Services Grant. The draw down was approved and the University received the funds. These funds are to be used to reimburse the University for expenses, allowable under the grant, that have already been incurred. At the end of September 2001, the University still had cash on hand of \$1,128 from the September 6, 2001 draw down. The University should have procedures in place to minimize the time elapsing between drawdowns and the disbursement of funds that were requested in excess of expenditures already incurred. At June 30, 2002, there is currently a positive cash balance of \$811 in this account, which means there was another drawdown where excess funds requested were not expensed by year-end.

Cause

The University stated that due to high turnover in the Grants Department, a part-time accounting clerk was responsible for the cash drawdowns and rounded the request up to the nearest thousand. This rounding technique created the minor excess cash funds.

Recommendation

The University should implement procedures to ensure that requested drawdowns do not exceed the amount of expenses already paid for with University funds.

Response

The University concurs that the Student Support Services program had excess cash. However, the overall TRIO program had a cash deficit at September 2001 and June 2002. The University is revising their cash drawdown procedure by 1) increasing the number of requests from the current monthly basis, and 2) using a “rounding down” process for all future requests. The University feels these changes to enhance their current procedures will help ensure minor excess cash situations will not recur.

Current Status

We did not note any instances in the current year drawdown testing where there was excess cash maintained by the University for any of the University’s federal funds.

Oakland University

Summary Schedule of Prior Audit Findings

(Continued)

02-2 Time and Effort Reporting

Condition

The University has not collected data supporting the amount of payroll expenses for federal grants. In fiscal year 2001, the University designed and implemented an automated time and effort reporting system that allowed faculty and staff to submit percentages of time spent on grants and research. This system was not used for any of the federal grants for the 2001-2002 fiscal year. The payroll expenditures that are being reported for the applicable grants are based on the allowable payroll expense.

Cause

The University has stated that high turnover in the Grants and Sponsored Research Department has lead to the lack of time and effort reporting.

Recommendation

The University should implement procedures to ensure that the time and effort reporting system is used in a timely manner and the results are reflected in the appropriate grant expenses.

Response

The University concurs that time and effort reporting was not performed. A new automated time and effort reporting process was implemented in fiscal year 2001, and is performed annually in August after the University's year end. Due to employee turnover, the position was not filled until October 2002, creating a delay in completing the report process. The effort reporting system has been updated for fiscal 2002 activity, and the University has begun obtaining the required time and effort reports for the fiscal year 2002.

Current Status

The University was enhancing this process throughout the year and in August 2003 fully implemented the system to include more rigorous follow-up for the time and effort reporting. This is expected to be performed on a quarterly basis. As of August 2003, the University has begun to maintain a listing of time and effort reports not yet received, and they are taking action in obtaining and maintaining these reports.