



**THE REED INSTITUTE**

Independent Auditors' Report in Accordance with  
the Uniform Guidance for Federal Awards

Year ended June 30, 2016

# THE REED INSTITUTE

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**Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards***

The Board of Trustees  
The Reed Institute:

**Report on Compliance for Each Major Federal Program**

We have audited Reed Institute's (the College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2016. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 College'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.



### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

The College's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 College's internal control over compliance.

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. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. Material weaknesses may exist that have not been identified. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001, that we consider to be a significant deficiency.

The College's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of The College as of and for the year ended June 30, 2016, and have issued our report thereon dated October 7, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

**KPMG LLP**

October 7, 2016

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Schedule of Expenditures of Federal Awards  
Year ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA	Federal program identifying number	Total federal expenditures
Student Financial Assistance — Cluster:			
Department of Education Programs:			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 209,939
Federal Work-Study Program	84.033		156,289
Federal Perkins Loan Program (note 4)	84.038		4,317,575
Federal Pell Grant Program	84.063		1,092,781
Federal Direct Student Loans	84.268		3,724,156
Total Student Financial Assistance Cluster			<u>9,500,740</u>
Research and Development — Cluster:			
Department of Energy Programs			
Nuclear Energy Research, Development and Demonstration	81.121	NE0008249	62,994
Total Department of Energy			<u>62,994</u>
Department of Agriculture Programs, Pass-through Awards			
Pass through Virginia Tech			
Agriculture & Food Research Initiative	10.31	2015-67023-23001	41,047
Pass through UC Santa Cruz			
Agriculture & Food Research Initiative	10.31	2016-67019-25185	4,160
Total Department of Agriculture, Pass-through Awards			<u>45,207</u>
National Oceanic & Atmospheric Association Programs			
Climate and Atmospheric Research	11.431	NA130AR4310070	27,470
Total National Oceanic & Atmospheric Association			<u>27,470</u>
National Institute of Standards and Technology Programs			
Measurement and Engineering Research and Standards	11.609	70NANB13H060	9,565
Total National Institute of Standards and Technology			<u>9,565</u>
Defense Advanced Research Projects Agency Programs, Pass-through Awards			
Pass through UC San Diego			
Research and Technology Development	12.800	N66001-09-1-2025	73,673
Total Defense Advanced Research Projects Agency, Pass-through Awards			<u>73,673</u>
National Science Foundation Programs, Direct Awards			
Mathematical & Physical Sciences	47.049	DMS-1406327	25,770
Mathematical & Physical Sciences	47.049	1462793	2,706
Biological Sciences	47.074	IOS-0818957	1,113
Biological Sciences	47.074	DEB-1021582	23,563
Biological Sciences	47.074	MCB-1150213	47,329
Biological Sciences	47.074	IOS-1550957	75,599
Biological Sciences	47.074	IOS-1456486	57,013
Biological Sciences	47.074	IOS-1257469	179,729
Social, Behavioral, and Economic Sciences	47.075	SES-1528190	99,940
Education and Human Resources	47.076	DUE-1154004	164,870
Subtotal National Science Foundation, Direct Awards			<u>677,632</u>
National Science Foundation Programs, Pass-through Awards			
Pass-Through Cornell University			
Biological Sciences	47.074	DEB-1257522	32,283
Subtotal National Science Foundation, Pass-through Awards			<u>32,283</u>
Total National Science Foundation			709,915
Environmental Protection Agency Programs			
Anthropogenic Influence on Biogenic VOC Oxidation	66.509	RD-83539901-0	5,062
Total Environmental Protection Agency			<u>5,062</u>
National Institutes of Health Programs, Direct Awards			
Drug Abuse and Addiction Research Programs	93.279	1R01DA026127-01A1	31,743
Cancer Research Manpower	93.398	7K01CA163972-03	48,903
Extramural Research Programs in the Neurosciences	93.853	1R15NS091977-01	138,054
Allergy, Immunology, and Transplantation Research	93.855	2R01A1081879-05	263,218
Allergy, Immunology, and Transplantation Research	93.855	1R21AI115193-01	154,029
Vision Research	93.867	1R15EY023745-01	136,716
Subtotal National Institutes of Health, Direct Awards			<u>772,663</u>
National Institutes of Health Programs, Pass-Through Awards			
Pass-Through UC San Diego			
Alcohol Research Programs	93.273	2R01AA012171-11A1	248,620
Subtotal National Institutes of Health, Pass-Through Awards			<u>248,620</u>
Total National Institute of Health			1,021,283
Total Research and Development Cluster			<u>1,955,169</u>
Total expenditures of federal awards			<u>\$ 11,455,909</u>

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, 2016

**(1) General**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Reed Institute (the College) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the College.

**(2) Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**(3) Indirect Cost Rate**

The College has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**(4) Federal Student Loan Programs – Perkins Loans**

The federal student loan programs listed subsequently are administered directly by the College, and balances and transactions relating to these programs are included in the College’s basic financial statements. Loans outstanding at the beginning of the year of \$3,848,094, loans made during the year of \$421,168, and administrative costs of \$48,313 are included in the total federal expenditures presented in the Schedule of \$4,317,575. The balance of loans outstanding at June 30, 2016 consists of:

	<b>CFDA number</b>	<b>Outstanding balance at June 30, 2016</b>
Perkins loans	84.038	\$ 3,600,726

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

**(5) Federal Direct Loans**

During the year ended June 30, 2016, the College processed the following amount of new loans under the Federal Direct Loan program (which includes Stafford Loans and Parents' Loans for undergraduate and graduate students):

	<u>CFDA number</u>	<u>Amount</u>
Direct loans	84.268	\$ 2,276,718
Direct loans for graduate students	84.268	26,446
Direct parents' loans for undergraduate students	84.268	<u>1,420,992</u>
Total		<u>\$ 3,724,156</u>



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Schedule of Findings and Questioned Costs

Year ended June 30, 2016

**(1) Summary of Auditor's Results**

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
  - Material weaknesses: **No**
  - Significant deficiencies: **None Reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses: **No**
  - Significant deficiencies: **Yes**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- (g) Major programs:
  - Student Financial Assistance Cluster – CFDA 84.007, 84.033, 84.038, 84.063, 84.268
  - Research and Development Cluster – CFDA 10.310, 11.431, 11.609, 12.800, 47.049, 47.074, 47.075, 47.076, 66.509, 81.121, 93.273, 93.279, 93.398, 93.853, 93.855, 93.867
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (i) Auditee qualified as a low-risk auditee: **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 – see finding 2016-001 on subsequent pages.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2016

**Finding 2016-001:**

**Federal Program:** Student Financial Assistance Cluster

**CFDA Numbers:** 84.063 Federal Pell Grant Program

**Award Numbers:** None

**Federal Agencies:** U.S. Department of Education

**Pass-through Entities:** None

**Federal Award Year:** July 1, 2015 to June 30, 2016

**Criteria:** As shown in “Federal Register /Vol. 81, No. 64 /Monday, April 4, 2016 /Notices,” an institution must submit Pell Grant disbursement records to Common Origination and Disbursement, as applicable, no later than 15 days after making the disbursement or becoming aware of the need to adjust a previously reported disbursement.

**Statement of Condition:** During our test work over the timeliness of reporting for Pell Grants, we noted that 24 out of 40 samples for students receiving Pell grants were submitted later than 15 days. Of the exceptions, 22 occurred related to disbursements made during August and September 2015.

**Cause and possible asserted effect:** The employee responsible for compliance oversight left the College at the start of the fiscal year and her duties were transferred to an interim staff person. During this period of transition (August–September), Pell disbursement records were not submitted to COD within the required 15-day time period. After the transition in employees and the hiring of a Banner consultant, these exceptions decreased significantly.

**Identification of questioned costs and how they were computed:** \$0

**Whether the sampling was a statistically valid sample:** The sample was not intended to be, and was not, a statistically valid sample.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2016

***Identification of whether the audit finding is a repeat of a finding in the immediately prior audit and if so, the applicable prior year finding number:***

This finding is not a repeat of a prior year reported finding.

***Recommendations:***

We recommend that management strengthen the organization's training and review procedures related to timeliness of reporting to ensure compliance with the reporting requirements as outlined in the Organization's policies and the Uniform Guidance.

***Views of responsible officials:***

To ensure no further occurrences of exceptions, remediation has been put in place for Fiscal Year 2017. Management has implemented a change in monitoring timeliness of reporting compliance to correct the issue and has implemented the following: 1) training procedures and documentation have been created, 2) additional reports have been created to ensure Banner disbursement and COD disbursement dates are within the 15-day reporting timeframe, 3) cross-training efforts have been put in place to further ensure compliant reporting.