



## **THE REED INSTITUTE**

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

June 30, 2021

# THE REED INSTITUTE

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KPMG LLP  
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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 the Uniform Guidance**

The Board of Trustees  
The Reed Institute:

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

We have audited the 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 the College's major federal programs for the year ended June 30, 2021. The College's major federal programs are identified in the summary of auditors' 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 Reed Institute 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, 2021.

**Report on Internal Control over Compliance**

Management of the Reed Institute 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 a 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 that we consider to be significant deficiencies.

The College's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The College is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The College's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

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 Reed Institute as of and for the year ended June 30, 2021, and have issued our report thereon dated October 6, 2021, 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

Portland, Oregon  
December 17, 2021

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Schedule of Expenditures of Federal Awards  
Year ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster title	Federal CFDA number	Grant identifying number	Provided to subrecipients	Total Federal expenditures
Student Financial Assistance – Cluster:				
Department of Education Programs:				
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		\$ —	209,939
Federal Work-Study Program	84.033		—	182,703
Federal Perkins Loan Program (Note 4)	84.038		—	1,800,643
Federal Pell Grant Program	84.063		—	754,153
Federal Direct Student Loans (Note 4)	84.268		—	4,286,461
Total Student Federal Aid Cluster			—	7,233,899
Research and Development – Cluster:				
United States Department of the Interior:				
Pass through University of California – Santa Barbara:				
National Fish and Wildlife Foundation – Landowner Incentive Program	15.633	KK2059	—	44,561
Pass through Washington State University:				
U.S. Geological Survey – Research and Data Collection	15.808	136689-SPC002380	—	31,791
Total United States Department of the Interior			—	76,352
National Endowment for the Humanities:				
Pass through the New School:				
Promotion of the Humanities_Fellowships and Stipends	45.160	FT-278766-21	—	6,000
Promotion of the Humanities_Research	45.161	GR20320	—	10,978
Total National Endowment for the Humanities			—	16,978
National Science Foundation:				
Mathematical & Physical Sciences	47.049	CHE-1945661	—	53,752
Mathematical & Physical Sciences	47.049	CHE-21112759	—	5,828
Mathematical & Physical Sciences	47.049	DMS-1855174	—	59,464
Mathematical & Physical Sciences	47.049	DMS-1709302	—	75,342
Subtotal Mathematical & Physical Sciences			—	194,386
Geosciences	47.050	AGS-1762106	—	54,475
Subtotal Geosciences			—	54,475
Computer and Information Science and Engineering	47.070	CNS-1817245	—	48,609
Subtotal Computer and Information Science and Engineering			—	48,609
Biological Sciences	47.074	DEB-1856415	—	58,796
Biological Sciences	47.074	IOS-1456486	—	24,072
Biological Sciences	47.074	IOS-1755423	27,154	163,638
Biological Sciences	47.074	MCB-1150213	—	48,109
Biological Sciences	47.074	MCB-1716964	—	142,837
Biological Sciences	47.074	MCB-1931150	—	212,748
Biological Sciences	47.074	DBI-1750981	—	171,393
Subtotal Biological Sciences			27,154	821,593
Social, Behavioral, and Economic Sciences	47.075	BCS-1829458	—	84,476
Social, Behavioral, and Economic Sciences	47.075	BCS-2010014	—	66,862
Subtotal Social, Behavioral, and Economic Sciences			—	151,338
Total National Science Foundation			27,154	1,270,401
United States Environmental Protection Agency:				
Pass through Portland State University:				
Surveys, Studies, Research, Investigations, Demonstrations, & Special Purpose Activities Relating to the Clean Air Act	66.034	208GEO638	—	4,168
Total United States Environmental Protection Agency			—	4,168
U.S. Department of Energy:				
Office of Nuclear Energy – Nuclear Energy Research, Development, and Demonstration				
Subtotal Department of Energy	81.121	DE-NE0008918	—	104,000
Subtotal Department of Energy			—	104,000
National Institutes of Health:				
Drug Abuse and Addiction Research Programs	93.279	1R15DA050178-01	—	117,331
Subtotal Drug Abuse and Addiction Research Programs			—	117,331
Biomedical Research and Research Training	93.859	1R15GM132861-01	—	95,636
Biomedical Research and Research Training	93.859	1R15GM126462-01	—	61,310
Biomedical Research and Research Training	93.859	1R15GM129857-01A1	—	128,960
Subtotal Biomedical Research and Research Training			—	285,906
Vision Research	93.867	1R15EY023745-02	—	47,308
Subtotal Vision Research			—	47,308
Total National Institute of Health			—	450,545
Total Research and Development Cluster			27,154	1,922,444
Education Stabilization Fund:				
COVID-19 Education Stabilization fund – Higher Education Emergency Relief Fund – Student aid portion	84.425E	P425E202283	—	435,046
COVID-19 Education Stabilization fund – Higher Education Emergency Relief Fund – Institutional portion	84.425F	P425F201371	—	944,163
Total Education Stabilization Fund Cluster			—	1,379,209
Total expenditures of federal awards			\$ 27,154	10,535,552

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, 2021

**(1) Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of The Reed Institute (the College) under programs of the federal government for the year ended June 30, 2021. 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**

The federal Perkins loan program is administered directly by the College, and balances and transactions relating to this program are included in the College's basic financial statements. The basis used to determine Perkins loans expended shown on the Schedule is the amount of new loans made or received during the fiscal year plus the balance of loans from previous years for which the federal government imposes continuing compliance requirements, plus any interest subsidy, cash, or administrative cost allowance received. Federal direct student loans are made by the Secretary of Education through the Federal Direct Student Loan program and only the value of loans made during the period are considered federal awards expended during that period and are shown on the Schedule. The balance of loans outstanding at June 30, 2021 consists of:

	CFDA number	Loans outstanding at the beginning of the fiscal year	New loans processed during the fiscal year	Administrative cost	Total loans on the schedule of expenditures of federal awards	Outstanding balance at June 30, 2021
Perkins loans	84.038	\$ 1,800,643	—	—	1,800,643	1,406,138
Federal Direct Student loans	84.268	—	4,286,461	—	4,286,461	4,286,461
		<u>\$ 1,800,643</u>	<u>4,286,461</u>	<u>—</u>	<u>6,087,104</u>	<u>5,692,599</u>

Congress did not renew the Federal Perkins Loan Program after September 2017, and the transition period permitting disbursements ended on June 30, 2018. The College intends to continue servicing the outstanding Perkins loans and remit excess cash periodically to the Department of Education. As the program has ended, there were no Perkins loans made during the year ended June 30, 2021.

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Schedule of Findings and Questioned Costs  
Year ended June 30, 2021

**(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): **No**
- (g) Major programs:
  - Student Financial Assistance Cluster – various CFDA numbers
  - COVID-19 Education Stabilization fund – Higher Education Emergency Relief Fund – CFDA 84.425E and 84.425F
- (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

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Schedule of Findings and Questioned Costs

Year ended June 30, 2021

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

<b>Finding Reference Number</b>	<b>2021-001</b>
Federal program and specific federal award identification	<p><i>Federal program:</i> Student Financial Aid Cluster  <i>CFDA:</i> 84.268 - Federal Direct Student Loans  <i>Federal Agency:</i> United States Department of Education  <i>Pass-through entity:</i> None  <i>Grant ID number:</i> None  <i>Federal Award Year ended:</i> June 30, 2021</p>
Criteria or specific requirement	<p>Disbursements to or on behalf of students:</p> <p>Pursuant to 34 CFR § 668.165 Notices and authorization (a) Notices, Section 1, Before an institution disburses title IV, HEA program funds for any award year, the institution must notify a student of the amount of funds that the student or his or her parent can expect to receive under each title IV, HEA program, and how and when those funds will be disbursed. If those funds include Direct Loan program funds, the notice must indicate which funds are from subsidized loans, which are from unsubsidized loans, and which are from PLUS loans.</p> <p>Pursuant to 34 CFR § 668.165 Notices and authorization (a) Notices, Section 2(ii) and (iii), if an institution credits a student ledger account with Direct Loan, the institution must notify the student or parent in writing of 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 and the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan.</p>
Condition found	<p>The College does not have a secondary review control in place to ensure notifications related to loan disbursements are sent to all students.</p> <p>We selected a sample of 40 students with financial aid disbursements. Out of our sample, management was unable to produce evidence of the notification of the right to cancel for direct loans for 1 student and the notification of disbursement related to 4 PLUS loan disbursements. The total number of students identified with missing notifications in our sample was 4 (one student had both a direct loan and PLUS loan with missing notifications).</p>

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Schedule of Findings and Questioned Costs

Year ended June 30, 2021

	<p>Management subsequently performed a review of the total student population and identified 4 additional students where evidence that the right to cancel notification was provided to the student was missing. The total affected students with identified missing notifications was 8.</p> <p>For 6 affected students with a missing Spring notification, the required notifications were sent in the Fall disbursement so the students had access to information regarding their loan cancellation rights from the earlier notice. All affected students used affirmative consent to accept their loans, and were provided with the loan terms and conditions as part of this process, which included information on their loans and their rights.</p>
Cause	The College's control failed in detecting it did not send the required notifications to the student in the required timeframe with the required information.
Possible effect	As a result of the control failure, 5 students were not provided with the required right to cancel notification. The students had access to information regarding these rights in the Fall disbursement notices and/or the terms and conditions of the loans. As a result of the control failure, 4 students were not provided with required notification of disbursement of PLUS loans. The students and their parents were provided information related to their PLUS loans as part of the the award letter and the affirmative consent process. While these exceptions were not considered material to the compliance requirement, without an appropriate control in place, the College could have material non-compliance with notification requirements.
Identification of questioned costs and how they were computed	None reported.
Whether the sampling was a statistically valid sample	The sample was not intended to be, and was not, a statistically valid sample.
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	No.
Recommendations	We recommend that the College modify its internal controls to add a secondary review of the processing of direct loan PLUS loan

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Schedule of Findings and Questioned Costs

Year ended June 30, 2021

	disbursements to ensure that all required information and notifications were generated and sent to the student or parent.
Views of responsible officials	<p>The College has created an updated “right to cancel” report that is being run weekly by a financial aid counselor who sends the right to cancel email via Banner to the appropriate students and then adds the right to cancel code in RUAMAIL for documentation. Recipients of Parent PLUS Loans are sent the right to cancel email notification via a separate mail merge process. Those emails are then saved to the College’s electronic documentation system, and a RUAMAIL code is also added for documentation.</p> <p>As a quality assurance measure, the associate director runs an audit report every other week to make sure no students that should be receiving the right to cancel email have been missed. If any students are identified during that audit process, the financial aid counselor is notified of the student who still needs to receive the right to cancel notification in order to process it within the appropriate time frame.</p>

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Schedule of Findings and Questioned Costs

Year ended June 30, 2021

<b>Finding Reference Number</b>	<b>2021-002</b>
Federal program and specific federal award identification	<p><i>Federal program:</i> COVID-19-Education Stabilization Fund-Higher Education Emergency Relief Fund (HEERF)</p> <p><i>CFDA:</i> 84.425E – Student Aid Portion</p> <p><i>Federal Agency:</i> United States Department of Education</p> <p><i>Pass-through entity:</i> None</p> <p><i>Grant ID number:</i> P425E202283</p> <p><i>Federal Award Year ended:</i> June 30, 2021</p>
Criteria or specific requirement	<p>Reporting – Section 18004(a)(1) Student Aid Portion Quarterly Public Reporting – 85 FR 53802.</p> <p>Section 18004(e) of the CARES Act requires each institution that received funds under Section 18004 to “submit a report to the Secretary, at such time and in such manner as the Secretary may require.” This reporting, as stated in the Certificate and Agreement, was due 30 days from the date of the Certification and Agreement and every 45 days thereafter. The DOE subsequently clarified the reporting requirements through its issuance of an Electronic Announcement (EA) on May 6, 2020, which specified that the information must be posted “in a location that is easily accessible to the public.” The EA also clarified the reporting timeframe to be “30 days after the date when the institution received its allocation under the CARES Act and updated every 45 days thereafter.”</p> <p>On August 31, 2020, the Department of Education revised the EA by changing the frequency of reporting after the initial 30-day period from every 45 days thereafter to every calendar quarter. Grantees posting a 45-day report on or after August 31, 2020, should instead post a report every calendar quarter, with the first calendar quarter report due by October 10, 2020, and covering the period from after their last 45-day or 30-day report through the end of the calendar quarter on September 30, 2020.</p> <p>On May 13, 2021, the Department of Education published an additional notice for student aid public reporting under CRRSAA and ARP, which requires that institutions publicly post certain information on their website. Institutions must publicly post their report as soon as possible, but no later than 30 days after the publication of the notice or 30 days after the date ED first obligated funds under HEERF I, II, or III to the institution for Emergency Financial Aid Grants to Students, whichever comes later. The report must be updated no</p>

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Schedule of Findings and Questioned Costs

Year ended June 30, 2021

	<p>later than 10 days after the end of each calendar quarter (September 30, and December 31, March 31, June 30).</p> <p>2 CFR 200.303(a) requires that non-Federal entities receiving Federal awards establish and maintain effective internal control over the Federal award to provide reasonable assurance that they are managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.</p>
Condition found	The College did not have the required control procedures to ensure the HEERF student aid portion reporting was reviewed and posted to the College's website timely. The College did not document when student aid reporting was reviewed and posted to the College's website, so we are unable to determine the timeliness of submissions.
Cause	The College did not have adequate internal controls in place related to reporting requirements for the HEERF program student award portion.
Possible effect	Federal oversight agencies, including the Department of Education, depend on accurate reports to measure program results and institutional compliance with federal requirements. By failing to have an appropriately designed and implemented review control over the HEERF student aid portion reporting in place, the College could have material non-compliance with the requirements of the HEERF Certification and agreement.
Identification of questioned costs and how they were computed	None.
Whether the sampling was a statistically valid sample	The sample was not intended to be, and was not, a statistically valid sample.
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	No.
Recommendations	The College should strengthen its internal controls over HEERF reporting requirements for the Student Aid portion of the grant by developing and documenting a formalized review process, including documentation of the date reporting was uploaded to the College's website, for the student award reporting.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Views of responsible officials	<p>The following corrective measures have been or are currently in the implementation process: The Director of Financial Aid will request amounts and number of students who received HEERF funding from the Business Office at the end of each quarter (1st quarter: January-March; 2nd quarter: April-June; 3rd quarter: July-September; and 4th quarter, October-December) and will review, confirm, and document the date of request and review. A log of the website updates will be maintained to document timely submission of data. The College is in the process of converting the 45 day submission format to quarterly and will be retroactively posting and submitting a Q3 report and will adhere to the quarterly reporting schedule going forward. The website is being revamped to include all necessary reporting requirements including the number of eligible students for CRSSA HEERF II and ARP HEERF III.</p>
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