Roger Williams University
Bristol, RI

NEASC 5th Year Interim Report

January 2012

Report to the
Commission on Higher Education
New England Association of Schools and Colleges

Appendix C

The Auditor’s Management Letter

Roger Williams University

Year Ended June 30, 2011

Audit Committee Meeting

Agenda

- Audit results
- Required communications
- Financial statement changes
- Discussion points and other control deficiencies
- New developments
- Audit Results A-133
- Executive session
- How to contact us
- Management's representations to us

Audit Results

- Opinion on consolidated financial statements
  - We believe the consolidated financial statements of the University are presented fairly in all material respects in accordance with U.S. GAAP
  - This is considered an "unqualified" or "clean" report
  - While a disclaimer of opinion is being provided for the Benefit Plan under allowable rules, the form and content is presented in accordance with D.O.L. rules

—Reporting on supplemental schedules

- Supplemental schedules were subjected to the procedures applied in the financial statement audit
- We believe the supplemental information is fairly stated in all material respects in relation to the consolidated financial statements and that supplemental information related to the Benefit Plan is presented in accordance with D.O.L. Rules

—Reporting under Government Auditing Standards

- No instances of non compliance or matters relating to internal control over financial reporting indentified and reported

Audit Results (continued)

- Other matters
  - No instances of fraud or illegal acts noted
  - No material uncertainties noted
  - No significant changes to planned scope or approach required during year end fieldwork

Required Communications

- Our responsibilities under generally accepted auditing standards, Government Auditing Standards and OMB Circular A-133
  - Covered in our planning communications provided at the start of the audit process; this document may be useful to refer to regarding the nature and scope of our work
- Evaluation of the effectiveness of communications with those charged with governance
  - Communication considered sufficient and in line with common best practices
- Changes in significant accounting policies
  - None noted
- Significant or unusual transactions
  - None noted
- Alternative accounting policies discussed with management
  - None

Required Communications (continued)

- Certain aspects of accounting are more qualitative and thus require more judgment and estimation by management. The following items represent such qualitative areas:
  - —Reserve for doubtful accounts
  - —Reserve for doubtful pledges
  - —Reserve for doubtful loans
  - —Valuation of alternative investments
  - —Measurement of asset retirement obligations
  - —Valuation of interest rate swaps

We have assessed these areas in considering the overall fairness of the consolidated financial statements taken as a whole as applicable to the University

Required Communications (continued)

- Adjustments detected by the audit process
  - To record additional interest expense of $153,599 associated with the 2008 A and B bonds.
  - To record reclassification of net assets between unrestricted, temporarily restricted and permanently restricted net assets of $238,551 for contribution revenues misclassified according to donor stipulated purpose.
  - Reclassification of investment balances from Level 2 to Level 3 valuated methods.
- Adjusting entries not recorded given insignificance
  - Expenses related to the London Theater in the amount of $150,000 were recognized in 2011, which related to fiscal 2010.
  - Pledge discounts were understated by $35,000 given discounts that should be applied on late donor payments.
- Consolidated financial statement disclosures
  - The disclosures are neutral, consistent, and clear
- Other information in documents containing audited financial statements
  - We are not aware of other documents that contain the audited financial statements that require work on our part (for example, a bond offering)
- Disagreements with management
  - None
- Management consultations with other accountants
  - Management has informed us that they have not consulted with other accountants
- Major issues discussed with management prior to our retention
  - None
- Difficulties encountered performing the audit
  - None

Financial Statement Changes

Changes to Notes to Consolidated Financial Statements:

- Overall Financial Statement Presentation
  - As part of the auditor transition, an overall review of the prior financial statement disclosures was made and changes to presentation were made based on best practices.
- Notes 2 & 3– Financing Receivables
  - Expanded disclosure of the credit quality of financing receivables and the allowance for credit losses per new accounting requirements.
- Notes 2 & 5 – Fair Value Measurements
  - Expanded disclosure of fair value measurements under the fair value standards, including Level III investments and disaggregation of investments per new accounting requirements.

Discussion Points and Other Control Deficiencies

A. Current year matters

- The expenses of the Office of the President are approved and monitored by the Senior Vice President of Finance and Administration. We understand that the Board or the Audit Committee Chair had reviewed such expenses as travel and entertainment in past years. We believe this is a best practice that should be considered going forward.
  - **Management's response:** Management concurs with the recommendation and the Audit Committee Chair will review such expenses quarterly during the fiscal year.
- Pledges receivable are not being discounted with a risk-adjusted rate of return. For future pledges, the University should consider the risk inherent with each donor and adjust the risk free rate of return accordingly.
  - **Management's response:** Management concurs with the recommendation and will discount pledges receivable with a risk-adjusted rate of return that considers the risk inherent with each donor and adjust the risk free rate of return accordingly.
- Contribution revenues per the general ledger should be reconciled to contributions per the Advancement Office's records regularly throughout the year to ensure that discrepancies are identified and accounted for.
  - **Management's response:** Management concurs with the recommendation and the Finance Office will institute a process whereby the contribution revenues per the general ledger are reconciled to contributions per the Advancement Office's records monthly during the fiscal year.

Discussion Points and Other Control Deficiencies (continued)

A. Current year matters (continued)

- In light of the audit adjustments made, net asset classification of contributions should be reviewed carefully between Finance and Advancement to ensure accuracy.
  - **Management's response:** Management concurs with the recommendation and the Finance Office and the Advancement Office will continue to obtain and review net asset classification of contributions. In fiscal year 2011, to further ensure net asset classification of contributions are reviewed carefully, management developed a donor letter of intent pledge form that is signed by the donor, the Finance Office and the Advancement Office.
- Gift annuities payable were calculated for net present value when established and have not been revalued. The present value of gift annuity obligations should be periodically revalued.
  - **Management's response:** Management concurs with the recommendation and during the fiscal year the Finance Office will revalue the present value of the gift annuity obligations.
- We support the University's consideration of reassessing its asset retirement obligation given that actual costs have often exceeded estimated amounts.
  - **Management's response:** As noted above the Finance Office will continue to reassess its asset retirement obligation.
- For future energy and related contracts, the University should make an assessment and document their position regarding the accounting for such contracts on an individual contract basis.
  - **Management's response:** Management concurs and the Finance Office will assess and document the University's position on future energy and related contracts on an individual basis.

B. Status of prior year matters

- Certain matters were noted involving the internal control structure of the University and its operation that were considered to be a significant deficiency:
  - Year-end Closing Process – ***Resolved. During 2011, the year-end closing process did not have any noteworthy issues.***
  - Net Assets – ***See comments under current year matters.***
  - Journal Entries – ***Resolved. We reviewed the current process for recording, approving and reviewing journal entries noting no deficiencies in internal controls.***
  - Debt Compliance – ***Resolved. The current year debt covenants were calculated accurately and in accordance with the underlying debt agreements.***

New Developments

A. Accounting and Business Developments

- COSO releases thought papers on Enterprise Risk Management which may be a useful reference regarding risk management and oversite
- Changes to lease accounting to record assets and liabilities for all lease interests
- Changes to disclosures related to loss contingencies, litigation and other possible losses which provides more information on the status of these items
- Changes in disclosure requirements regarding fair value
- Federal Reserve issues new rules that will change the fee structure for purchases made with debit cards beginning October 1, 2011 – this will impact institutions that accept debit cards for tuition payments – likely to see a reduction in costs
- DOE is making public on College Navigator website (http://nces.ed.gov/collegenavigator) institutions with highest tuition, highest net price and largest tuition percentage increase
- Net price calculator to be made publicly available on institution's website

New Developments (continued)

B. Developments impacting Federal expenditures

- Revised incentive compensation rules in effect July 1, 2011 prohibiting incentive compensation to individuals or entities involved in recruiting students or making awards of student aid
- Continuing issues with respect to getting local approval for operation of programs, particularly on-line programs in other states

New Developments (continued)

C. Tax Developments

- Next steps and lessons learned from audits of 30 colleges and universities
- Ongoing requirements associated with the Affordable Care Act (See resource page at irs.gov under charities and non-profits)
- Growing number of IRS audits; 97% increase since 2004; the number of examination employees is up 22% in the last two years as well
- Increasing focus on international activities, new publication with guidance in process
- PILOT pressure on organizations with real estate exemptions: Boston and Providence are trying to get organizations to agree to pay 25 percent of what they would owe in property taxes if they were not exempt. Others to follow?

Audit Results A-133

- Reporting under OMB Circular A-133
  - We believe the University complied in all material respects with compliance requirements that could have a direct and material effect on each major program , however we reported the following findings in this audit as follows:

    - Economic Development Administration Grant Audit:
      - No instances of non-compliance found

    - Student Financial Aid Cluster:
      - Two out of forty students tested had incorrect enrollment data reported to NSLDS. One student was reported as withdrawn while the student was enrolled full time. Another student was reported as a leave of absence while attending a study abroad program who also should have been considered as enrolled full time.
      - Thirty-seven out of forty students tested had a disbursement date that was reported to COD that did not agree to the date that the University disbursed the funds to the student. The dates differed between one and thirteen days, with approximately fifty percent off by one day.

    - More detailed information on these two items is contained in the report package.

Audit Results A-133

- A-133 Discussion Points
  - Current year matters
    - Similar to the A-133 finding regarding Direct Loans, dates being reported to COD must agree to student's account statements for Pell grants as well. Although this was not reported as an A-133 finding for Pell grants, the same procedures that are put in place to ensure compliance with Direct Loans should also be put in place for Pell grants to ensure this requirement is met.
      - **Management's response:** Management concurs. Similar to the corrective action regarding Direct Loans, the University will process all funds on the disbursement date reported to the COD. The University will ensure all dates match and if they do not will manually correct the date in the COD within 30 days as required.
    - During our testing, we noted that for students who graduated after the Spring term, enrollment reporting to NSLDS was performed using an effective date of the Commencement date. The date reported to NSLDS is required to be the date the course requirements were completed and not the presentation date of the diploma or certificate. Management should determine a date that best reflects the federally-prescribed effective date and implement this as the standard for its enrollment reporting.
      - **Management's response:** Management concurs and the University will determine a date that best reflects the federally-prescribed effective date and implement this as the standard for its enrollment reporting.

Audit Results A-133

- A-133 Discussion Points (continued)

  –Status of prior year matters

  - Schedule of Expenditures of Federal Awards (SEFA) Preparation – ***Resolved. The current year SEFA was prepared correctly.***
  - Student Status Changes:
    - For the 40 students selected for status change test work there were 13 exceptions. The exceptions were as follows:
      - 9 status changes were not transmitted to the NSLDS within the required timeframe. The records were transmitted 1 to 37 days late. ***Resolved. All enrollment changes were reported within the correct timeframe.***
      - 1 Status change was not transmitted to the NSLDS within the correct description and date for the student's status change or within the required timeframe. If the status and date had been correct, the change would have been transmitted 56 days late. ***No instances of late reporting noted in the current year testing, however incorrect enrollment data was reported to NSLDS during 2011 – See current year finding 2011-1.***
      - 1 status change was not transmitted to the NSLDS with the correct description or within the required timeframe. The incorrect status change that was transmitted was 36 days late. ***Resolved. All status changes were reported within the correct timeframe.***
      - 2 status changes were not transmitted to the NSLDS with the correct description. ***Resolved. Enrollment changes were reported to NSLDS using the correct description.***

Executive Session

- Other matters relating to our services

How to Contact Us

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Management's Representations to Us

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JEROME F. WILLIAMS
Senior Vice President for Finance and Administration

October 12, 2011

Mayer Hoffman McCann P.C. – Tofias New England Division
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To Whom It May Concern:

We are providing this letter in connection with your audit of the consolidated statements of financial position of Roger Williams University (the "University") as of June 30, 2011 and the related consolidated statement of activities and cash flows for the year then ended for the purpose of expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position, changes in net assets, and cash flows of Roger Williams University in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 12, 2011, the following representations made to you during your audit.

1) The consolidated financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all assets and liabilities under the University's control.

2) We have made available to you all—

    a) Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.

    b) Minutes of the meetings of Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.

3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4) There are no material transactions that have not been properly recorded in the accounting records underlying the consolidated financial statements or the schedule of expenditures of federal awards.

5) We have represented separately that the effects of the uncorrected financial misstatements, if any, are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

6) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7) We have no knowledge of any fraud or suspected fraud affecting the University involving—

   a) Management,

   b) Employees who have significant roles in internal control, or

   c) Others where the fraud could have a material effect on the consolidated financial statements.

8) We have no knowledge of any allegations of fraud or suspected fraud affecting the University received in communications from employees, former employees, grantors, regulators, or others.

9) The University has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.

10) The following, if any, have been properly recorded or disclosed in the consolidated financial statements:

   a) Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

   b) Guarantees, whether written or oral, under which the University is contingently liable.

   c) All accounting estimates that could be material to the consolidated financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

11) There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the consolidated financial statements. We understand that *near term* means the period within one year of the date of the consolidated financial statements. In addition, we have no knowledge of concentrations existing at the date of the consolidated financial statements that make the University vulnerable to the risk of severe impact that have not been properly disclosed in the consolidated financial statements. We understand that concentrations include individual or group concentrations of donors, suppliers, lenders, sources of labor or materials, services, licenses or other rights of operating areas or markets. We further understand that severe impact means a significant financially disruptive effect on the normal functioning of the University.

12) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of consolidated financial statement amounts or other financial data significant to the audit objectives.

13) Roger Williams University is an exempt University under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the University's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up to date.

14) There are no—

   a) Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the consolidated financial statements, as a basis for recording a loss contingency, or for reporting on noncompliance.

   b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with FASB Accounting Standards Codification 450, Contingencies, (formerly *Statement of Financial Accounting Standards No. 5, Accounting for Contingencies*).

   c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB *Accounting Standards Codification* 450, *Contingencies* (formerly *Statement of Financial Accounting Standards No. 5*).

   d) Designations of net assets disclosed by you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the consolidated financial statements.

15) The University has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral other than those disclosed to you in conjunction with long-term debt.

16) We have a process to track the status of audit findings and recommendations.

17) We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.

18) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

19) We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the consolidated financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

20) We have reviewed the principals of Accounting for Conditional Asset Retirement Obligations and have accrued a liability for the fair value of a conditional asset retirement obligation as of June 30, 2011 of $2,254,230.

21) The University has agreements with nine employees that provide post-employment benefits through 2015. As of June 30, 2011, the remaining obligation to the nine employees is $481,081, which is included in accrued expenses.

22) We are responsible for the fair market value measurement and disclosure of alternative investments in the consolidated financial statements. We have evaluated the appropriateness of the measurement methods and consistency in application of valuation methods.

23) We have reviewed the requirements for the Institution to be considered financially responsible as set forth by the Department of Education (34 CFR section 668.171(b)(1)) and have calculated the applicable ratio and conclude that the institution meets such requirements and is not participating in the Zone Alternative.

24) We are responsible for the authenticity and reasonableness of the investment income that is posted to the statement of activities.

25) There are no subsequent events requiring adjustment to the estimated fair value measurements and disclosures of the alternative investments.

26) We have complied with the financial covenants related to our outstanding bond agreements.

27) With respect to federal award programs:

    a) We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

    b) We are responsible for understanding and complying with the compliance requirements related to the preparation of the schedule of expenditures of federal awards and have, in accordance with OMB Circular A-133, Section 310(b), identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

    c) The methods of measurement or presentation of the schedule of expenditures of federal awards have not changed from those used in the prior period, or if they have, we have disclosed such changes to you and the reasons for such changes.

    d) We have disclosed to you any significant assumptions underlying the measurement or presentation of the schedule of expenditures of federal awards.

    e) We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

    f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies (including material weaknesses) reported in the schedule of findings and responses.

g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to federal programs.

h) We have received no requests from a federal agency to audit one or more specific programs as a major program.

i) We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards resulting from other audits or program reviews.

j) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, and Subpart C, "Cost Sharing and Matching," of OMB Circular A-110, *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*.

k) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

l) We have charged costs to federal awards in accordance with applicable cost principles.

m) We have made available to you all documentation relating to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

n) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic consolidated financial statements have been prepared.

o) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

p) We have monitored subrecipients, if applicable, to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.

q) We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports, if applicable, that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.

r) We have considered the results of subrecipient audits, if applicable, and have made any necessary adjustments to our books and records.

s) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

t) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.

u) We have disclosed to you all contracts or other agreements with service organizations, if applicable, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

No events have occurred subsequent to the consolidated statement of financial position date and through the date of this letter that would require adjustment to, or disclosure in, the consolidated financial statements.

Donald J. Farish, President

Jerome F. Williams, Senior Vice President for Finance
& Administration

Ellen M. Almeida, Controller