



DUKE UNIVERSITY

OMB Circular A-133 Reports

Year ended June 30, 2006

EIN #1 – 56-053-2129

DUKE UNIVERSITY
OMB Circular A-133 Reports

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Independent Auditors' Report on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards

The Board of Trustees of Duke University:

We have audited the accompanying consolidated balance sheet of Duke University as of June 30, 2006, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of Duke University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Duke University's 2005 consolidated financial statements and in our reported dated September 6, 2005 we expressed an unqualified opinion on those consolidated financial statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Duke University's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke University as of June 30, 2006 and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2006 on our consideration of Duke University's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly presented in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

September 5, 2006

DUKE UNIVERSITY

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2006

(1) Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes all grants, contracts, and similar agreements entered into directly between Duke University (Duke) and agencies and departments of the federal and state governments and all subawards to the Duke by nonfederal organizations pursuant to federal and state grants, contracts, and similar agreements. The information in this schedule is prepared on the accrual basis of accounting and is presented in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

(2) Summary of Significant Accounting Policies for Federal and State Award Expenditures

Expenditures for federal student financial aid programs are recognized as incurred and include the federal share of students' Federal Supplemental Educational Opportunity Grants (FSEOG) program grants and Federal Work-Study (FWS) program earnings, Pell grants, certain other federal financial aid grants for students, loan disbursements and administrative cost allowances, where applicable.

Expenditures for other federal awards of Duke's academic and other divisions are determined using the cost accounting principles and procedures set forth in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under these cost principles, certain expenditures are not allowable or are limited as to reimbursement.

Expenditures include facilities and administrative costs, related primarily to facilities operation and maintenance and general, divisional, and departmental administrative services, which are allocated to direct cost objectives (including federal awards) based on negotiated rates. Facilities and administrative costs allocated to such awards for the year ended June 30, 2006 were based on predetermined fixed rates negotiated with Duke's cognizant federal agency, the Department of Health and Human Services.

(3) Summary of Facilities and Administrative Cost Allowances – Governmental Sources

Facilities and administrative cost recoveries and administrative cost allowances from governmental sources for Duke's academic and other divisions for the year ended June 30, 2006 are summarized as follows:

Research and development	\$ 117,309,000
Student financial aid	344,000
Other	<u>2,387,000</u>
	<u>\$ 120,040,000</u>

(4) Federal Student Financial Aid Loan Programs

The Federal Perkins, Health Professions Student Loan (HPSL) and Primary Care Loan (PCL) programs are administered directly by Duke and balances and transactions relating to these programs are included in Duke's consolidated financial statements. The balances of loans outstanding under the Federal Perkins, HPSL and PCL programs were approximately \$27,809,000, \$134,000, and \$290,000, respectively, as of June 30, 2006.

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Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2006

Duke is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan Programs and, accordingly, these loans are not included in its consolidated financial statements. It is not practical to determine the balance of loans outstanding to students and former students of Duke under these programs as of June 30, 2006.

(5) Subrecipients

Of the federal expenditures presented in the schedule, Duke provided federal awards to subrecipients as follows:

<u>Federal grant agency</u>	<u>Amount provided to subrecipients</u>
Department of Health and Human Services	\$ 40,529,278
Department of Defense	3,664,712
Department of Energy	648,036
National Science Foundation	4,362,297
Others	<u>1,506,759</u>
	<u>\$ 50,711,082</u>



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

The Board of Trustees of Duke University:

We have audited the consolidated financial statements of Duke University as of and for the year ended June 30, 2006, and have issued our report thereon dated September 5, 2006. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Duke University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the consolidated 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 internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Duke University's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Duke University in a separate letter dated September 5, 2006.

This report is intended solely for the information and use of the Board of Trustees, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 5, 2006

Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 5, 2006

DUKE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

(1) Summary of Auditors' Results:

- (a) The type of report issued on the financial statements: **unqualified opinion**
- (b) Reportable conditions in internal control were disclosed by the audit of the financial statements: **none reported** Material weaknesses: **none**
- (c) Noncompliance which is material to the financial statements: **none**
- (d) Reportable conditions in internal control over major programs: **none reported**
Material weaknesses: **none**
- (e) The type of report issued on compliance for major programs: **unqualified opinion**
- (f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **see findings 06-1 and 06-2**
- (g) Major programs: **Research and Development Cluster; Microbiology and Infectious Disease Research (CFDA 93.856); and Cancer Research Manpower (CFDA 93.398)**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **yes**

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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

(2) **Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: none**

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

Finding No. 06-1: Cost-Sharing Expenditures

Federal agency: Department of Energy

Program: Studies of Nuclear Structure Using Neutrons

CFDA #: 81.RD

Grant number: OE-FG02-97ER41033

Project period: April 1, 1997 – February 28, 2009

Cluster: Research and Development Cluster

Criteria:

OMB Circular A-21 (A-21) establishes principles for determining the costs applicable to research and development, training, and other sponsored work performed by educational institutions under grants, contracts, and other agreements with the Federal Government. These agreements are referred to as sponsored agreements. These principles shall be used in determining the allowable direct and indirect costs under those agreements.

Condition:

Of the 142 expenditures tested by KPMG, it was determined that one expenditure was unallowable. This entry related to a manual cost-sharing entry that was booked by a department within Duke and was improperly recorded backwards, thus increasing rather than reducing the charges to the grant. The error resulted in an overstatement of grant expenditures.

Cause:

Isolated incident caused by administrative oversight.

Questioned Costs:

The entire population of manual cost sharing entries was considered resulting in a total questioned cost of \$19,100 for that entire population.

Recommendation:

We recommend that Duke monitor all cost-sharing transactions booked by departments to ensure that the entries are being booked properly.

Management Response:

The Office of Sponsored Programs (OSP) has mitigating controls in place to identify these types of errors during the project closeout process, as the final report is prepared. During project closeout, OSP recalculates the required cost sharing amount, and would have detected the noted error when comparing that amount to the actual amounts recorded on the general ledger.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

To strengthen controls over this process, Financial Services intends to implement procedures to sample and test transactions related to grants, including cost sharing entries, on a routine basis. In addition, OSP will request a new SAP report to more effectively identify cost-sharing transfer errors.

Finding No. 06-2: Federal Cash Transaction Reports

Federal agency: National Institutes of Health, Department of Health and Human Services

Programs: Clinico-Genomics for Improved Ovarian Cancer Treatment
Pre-replication Complex Assembly in Mammalian Cells

CFDA #: 93.398

Grant numbers: 1 K25 CA111636-01
1 F32 CA113177-01

Project Periods: August 1, 2005– June 30, 2010
September 1, 2005 – August 31, 2008

Criteria:

Report PSC 272, known as the *Federal Cash Transactions Report* or FCTR, provides a total accountability to each granting agency of all federal cash received by the recipient and is prepared by Duke on a quarterly basis. The report details prior reported cumulative expenditures, current quarter expenditures, and current cumulative expenditures for all open grants. The FCTR is completed and certified by Duke.

Condition:

Of the 25 reports tested by KPMG, 2 of the reports were improperly completed. Both of the reports containing errors were related to September 30, 2005 FCTRs. The report improperly documented current month expenditures rather than total cumulative expenditures, as required by the report. The FCTR for the subsequent period was correctly completed, which corrected the reporting on a cumulative basis. KPMG noted that Duke’s request for federal funds appeared to be correct for the period in which the FCTR errors were noted.

Cause:

Administrative oversight.

Questioned Costs:

None.

Recommendation:

We recommend that Duke implement more stringent monitoring and review procedures to ensure that all Federal Cash Transaction Reports are completed accurately.

Management Response:

Currently, FCTRs are generated manually in OSP. Duke plans to automate the process for quarterly FCTR generation, which will significantly reduce the required level of manual entry and the potential for errors.