Exhibit 3

OREGON STATE UNIVERSITY
REPORT ON INTERNAL CONTROLS
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

For the Year Ended June 30, 2014

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*

Oregon State University Board of Trustees
Corvallis, Oregon

Oregon Secretary of State Audits Division
Salem, Oregon

We have audited, in accordance with the 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, the financial statements of the business-type activities and the aggregate discretely presented component unit of Oregon State University (University), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 19, 2014. Our report includes a reference to other auditors who audited the financial statements of a discretely presented component unit, Oregon State Foundation. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we

consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as 2014-001, which we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oregon State University's financial statements are free from 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 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*.

Oregon State University's Response to Finding

Oregon State University's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Oregon State University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
December 19, 2014

2014-001 Lack of Proper Segregation of Duties in the Internal Control Structure Related to Information Technology

Significant Deficiency

Criteria:

A fundamental concept in a strong system of internal control is the segregation of duties. The basic premise is that no one employee should have access to both assets and the related accounting records or to all phases of a transaction. If the separation of duties is inadequate, there is a resulting risk that intentional fraud or unintentional errors could occur and not be detected. As it relates to information technology and applications, controls should be assigned to employees to technically prohibit one user from performing all phases of a transaction.

Condition:

During our review of segregations of duties conflicts within the Banner system, we noted fourteen employees had the ability to:

- Payroll: 1) add, change, delete an employee with in the payroll system, 2) establish payment method and pay rates, 3) process payroll, and 4) update paid-time off accrual thresholds.

- General Disbursements: 1) add vendor, 2) input an invoice, 3) approve invoice, and 4) process a payment to the vendor.

- General Ledger: 1) add, change or delete accounts; 2) open, close a period, and 3) post a journal entry.

Cause:

A review of Banner Access rights had not been performed to identify improper segregation of duties.

Effect:

While the University had certain manual compensating controls in place, such access rights allow for fraud or error to go undetected, especially if certain compensating controls are not performed consistently, or are not at a low enough level to detect certain instances of fraud or error.

Recommendation:

Management should ensure proper segregation of duties is established by removing access rights so that no one employee has the ability to perform all phases of a transaction. If in the rare circumstance that access rights can not be removed for certain employees, an automated process should be implemented so that when and if these employees perform a series of transactions that violates proper segregation of duties, a supervisor is informed and must approve that the actions take by the employee were authorized and appropriate.

Views of responsible officials and planned corrective actions:

We agree. We have removed update capabilities of the fourteen employees who had conflicting access rights within the Banner system, and we will periodically review Banner access rights to ensure proper segregation of duties.

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