

PART IV
FINDINGS

Harvard University
Schedule of Findings and Questioned Costs
For the Years Ended June 30, 2001

Section I. Summary of Auditors' Results

Financial Statements

Type of auditor's reports issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified	No
Reportable condition(s) identified that are not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified	No
Reportable condition(s) identified that are not considered to be material weakness(es)	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Audit findings required to be reported in accordance with OMB Circular A-133, Section .510(a):	Yes, see Section III of this schedule
Identification of Major programs: Research, Development and Training Financial Assistance	See Schedule of Expenditures of Federal Awards
Dollar threshold for Type A and B programs	\$3,000,000
Auditee qualifies as a low-risk auditee	No

Section II. Financial Statement Findings

None

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Section III. Federal Awards Findings and Questioned Costs

01-1 Allowable Costs/Cost Principles

OMB A-21, section F.6.b requires that costs incurred for the same purpose in like circumstances be treated consistently as either direct or as facilities and administrative costs. Items such as administrative salaries, office supplies, local telephone costs and postage are normally charged as facilities and administrative costs. OMB A-21, section J.2 states that costs incurred for the purchase of alcoholic beverages are unallowable. Section J.15 states that costs of entertainment are unallowable. Section J.18 states that fines and penalties are unallowable. Section J.27 states that direct material cost should include only the materials and supplies actually used, and due credit should be given for any excess materials retained. Section J.48.a states that airfare costs in excess of the lowest available commercial discount airfare, Federal Government contract airfare, or customary standard airfare, are unallowable.

Of the 120 transactions selected at the University for direct cost testing totaling \$526,096, we noted transactions totaling approximately \$13,006 where there was not supporting documentation to directly attribute the costs to the award or where specific awards had been charged in error. Of the twenty costs listed below, ten were unallowable costs related to such items as the purchase of alcoholic beverages, mathematical errors, or the improper appointment of a trainee, eight questioned or unallowable direct costs related to items normally charged as facilities and administrative costs, and two questioned costs related to lack of documentation.

Federal grant number	Agency	Number of transactions	Amount	Description
K-PIH-99156	HUD	1	\$ 4.50	Alcoholic beverages erroneously charged to the award.
K-PIH-99156	HUD	2	444.25	Items purchased in advance but not used by year end.
K-PIH-99156	HUD	1	3.79	Late fee erroneously charged to the award.
K-PIH-99156	HUD	1	85.02	Mathematical errors on invoice resulted in charges erroneously charged to the award.
5 R01 A132475-09	NIH-NIAID	1	1.65	Hotel movie erroneously charged to the award.
5 P01 DE012467-04	NIH-NIDCR	1	66.33	Unallowable charges removed from awards after sample selected
5 P01 CA55075-10	NIH-NIAID	1	206.00	Unallowable charges removed from awards after sample selected
5 T32 HL07374-20	NIH-NHLBI	2	8,134.56	Stipend for trainee who was improperly appointed to the training grant.
K-PIH-99156	HUD	2	418.76	Postage charges not directly allocable to the award due to lack of attribution.
K-PIH-99156	HUD	1	176.25	Long distance phone charges not directly allocable to the award due to lack of attribution.
5 R01 A132475-09	NIH-NIAID	1	147.18	Copy charges not directly allocable to the award due to lack of attribution.
5 P01 DE012467-04	NIH-NIDCR	1	1,730.00	Reprint charges not directly allocable to the award due to lack of attribution.
MCB-9817885	National Science Foundation	1	402.99	Clerical salary not directly allocable to the award due to lack of attribution.
5 R01 MH43518-13	NIH-NIMH	1	186.99	Office supplies not directly allocable to the award due to lack of attribution.
5 R01 MH43518-13	NIH-NIMH	1	93.26	Local and long distance phone charges not directly allocable to the award due to lack of attribution.
K-PIH-99156	HUD	1	254.75	Insufficient evidence that this air ticket was the lowest available fare.
5 P01 DE012467-04	NIH-NIDCR	1	<u>649.68</u>	Insufficient evidence that this air ticket was the lowest available fare.
		<u>20</u>	<u>\$13,005.96</u>	

In addition to the questioned or unallowable costs identified as part of our original sample, additional questioned costs of \$90,647.58 related to a training grant totaling \$1,345,939 (NIH-NHLBI award number 5 T32 HL07374-20) for the award period 7/1/94 to 8/31/00 were identified.

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Recommendation: The University should strengthen controls over the direct charging of costs to awards. We recommend that the University continue to educate departments about documentation and attribution requirements for costs which are normally treated as facilities and administrative costs. We recommend that period expense reports be monitored timely, both departmentally and centrally, to correct erroneous charges on awards. We also recommend that controls over monitoring of invoices from vendors and affiliated hospitals be strengthened.

01-2 Cost Transfers

Circular A-21, Section C.4 states that any costs allocable to a particular sponsored agreement may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns, avoid restrictions, or for other reasons of convenience. In addition, the NIH Grants Policy Statement pg. II-35 states that transfers must be supported by documentation that fully explains how the error occurred and a certification of the correctness of the new charge.

We noted seven instances of 45 cost transfers selected where the reason for the transfer was not adequately documented. The awards affected are: NSF, DEB-0080592; NIH-NHLBI, 5 P50 HL61036-03; NIH-NIMH, 5 R01 MH50647-09; NIH-NIGMS, 5 R01 GM48027-09; NIH-NIGMS, 5 R01 GM23928-24; NIH-NIGMS, 2 R01 GM39023-15; NIH-NCI, 5 F32 CA72203-03.

To identify cost transfers, the University encourages a standard naming convention, but adherence is not uniform. Because of this, it is difficult to identify cost transfers completely and to monitor compliance with the University's cost transfer policies.

Recommendation: We recommend the University develop a process to more completely monitor cost transfers. Explanations for cost transfers should be clearly documented on cost transfer forms or journal vouchers, as appropriate, to ensure adequate justification for the transfer.

01-3 Equipment and Real Property Management

Circular A-110, Subpart C, paragraph 34 outlines equipment standards for equipment acquired by a recipient with Federal funds. 34(f)(1) requires that equipment records be maintained accurately, including information concerning the ultimate disposition of the equipment. 34(f)(3) requires that differences between the physical inventory and the accounting records be investigated to determine the causes of the difference, and that, in connection with the inventory, the recipient verify the existence and current utilization of the equipment. 34(f)(4) requires that a control system be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment.

During our testing of the physical inventory, we noted three exceptions of 57 items selected. Two of these items were listed on the inventory listing, but the identifying tag was missing from the equipment. One item was listed on the inventory listing, but had been disposed of.

Recommendation: We recommend the University improve communication between the departments and the equipment management office in order to improve the accuracy of its equipment records.

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01-4 Effort Reporting

OMB Circular A-21, J.8 requires at least an annual certification under the plan confirmation method, and at least monthly activity reports under the after-the-fact activity method. Section J.8.c.2.e requires that the after-the-fact reports be signed by the employee, principal investigator, or responsible official using suitable means of verification that the work was performed.

The University primarily uses the plan confirmation method for faculty and the after-the-fact activity method for other staff. We tested 45 effort reports for timely completion and proper certification and submission. Of our sample, we noted 10 effort reports were not dated, and 18 reports were submitted between 13 and 204 days after the deadline. We noted that the lab administrator for one award, and not the principal investigator, signed the monthly effort certification forms.

We also noted the payroll charges and effort report for one employee were not confirmed orally. The employee on the effort report represented to us in an interview that the actual effort on the award was 5% - 10% less than as certified by the responsible official.

Recommendation: The University should ensure that effort certifications are completed in accordance with federal and University policies in a timely manner. In addition, the University should ensure that individuals responsible for signing demonstrate first-hand knowledge of the research being performed.

01-5 Reporting

Circular A-110 Section 51 requires that annual reports shall be due 90 calendar days after the grant year; quarterly or semiannual reports shall be due 30 days after the reporting period. Additionally, certain awards require programs reports be submitted at various intervals.

In testing the completion of 15 progress reports, we noted one that was not submitted timely as specified in the terms and conditions of the award (NIH-NIAID award 5 R01 A132475-09).

Section 52 requires that the Financial Status Report for each project or program be submitted no less frequently than annually, and the awarding agency will determine the frequency of the report.

In examining 35 awards for which an annual or final financial report was required, we noted 17 that were not submitted within the terms specified by the grantor agency. Of those, seven were submitted within one month of the due date, four were submitted within three months of the due date, and six were submitted after three months of the due date.

Recommendation: We recommend the University strengthen controls for monitoring due dates of both technical and financial reports and ensure that they are filed in a timely manner.

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01-6 Subrecipient Monitoring

OMB Circular A-133 Compliance Supplement Part 3M requires a pass-through entity to monitor a subrecipient's activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.

The departments conduct various levels of subrecipient monitoring, although no formal University-wide subrecipient monitoring policy exists. Monitoring procedures for subrecipients that are foreign entities are not well established. Additionally, while the University does request copies of the A-133 reports from the subrecipients for whom the reports are required, there is insufficient monitoring of the results of those reports. For those domestic subrecipients for whom an A-133 audit is not required, only audited financial statements are received, which is not an adequate monitoring procedure.

Recommendation: The University should institute subrecipient monitoring policies and procedures which encompass monitoring compliance with Federal regulations by subrecipients, including those from whom an A-133 audit is not required.

01-7 Incorrect Cost of Attendance

The OMB Circular A133 Compliance Supplement Part 5.N "Coordination of Student Aid Programs" requires the institution to ensure that it uses all information in its possession to evaluate a student's Title IV eligibility.

It was noted during testing of 37 students receiving student financial aid that two individuals were awarded aid based on incorrect calculations of cost of attendance. As a result, one student was under-awarded by \$20, and the other was under-awarded by \$500.

Recommendation: The University should closely monitor the calculation of cost of attendance in connection with awarding Federal monies, to ensure that aid is calculated and awarded correctly.

01-8 Change of Documentation

The OMB Circular A133 Compliance Supplement Part 5.N "Coordination of Student Aid Programs" requires that when a student financial aid officer makes changes in a student's cost of attendance, the change be properly documented.

In testing of 37 students receiving student financial aid, we noted insufficient documentation supporting changes in the calculation of students' awards in three instances.

Recommendation: When making changes with professional judgment, the financial aid administrators should take care to maintain the proper supporting documentation in the student's file. Additionally, the University should consider offering periodic training to student financial aid officers on the documentation necessary to support changes based on professional judgment.

00-1 Cost Transfers – prior year reportable condition

The University allowed a grace period whereby documentation requirements for certain cost transfers were waived.

Status:

Addressed within Corrective Action Plan to current year's finding 01-2.

00-2 Effort Reporting – prior year reportable condition

The University suspended monthly effort reporting requirements for the period July 1, 1999 to March 31, 2000.

Status:

Addressed within Corrective Action Plan to current year's finding 01-4.

00-3 Internal Controls Regarding Payables – prior year reportable condition

The designed controls over the purchase-to-pay activities and the lack of segregation of duties for purchases less than \$50,000 did not effectively mitigate the risks of the creation of fictitious suppliers, unauthorized purchases, unrecorded liabilities, and duplicate payments.

Status:

The Web Voucher System was adjusted in fiscal year 2001 to not allow purchases in excess of \$5,000 to be prepared and approved by the same individual. A report is distributed to financial deans when this occurs for purchases less than \$5,000.

00-4 Allowable Costs/Cost Principles

11 out of 120 direct costs were identified as questioned costs.

Status:

All of the 11 questioned costs noted above were removed from the federal awards.

00-5 Reporting

35 awards were examined for timely completion and submission of financial status reports, and 15 performance reports were tested for timely completion and submission. There were 17 instances where financial status reports were not submitted within the terms specified by the grantor agency, and there was one instance where a performance report was not submitted timely as specified in the terms and conditions of the award. In addition, six semi-annual reports that chart progress in meeting subcontracting plan goals were tested, five were submitted late.

Status:

Addressed within Corrective Action Plan to current year's finding 01-5.

00-6 Subrecipient Monitoring

Monitoring procedures for subrecipients that are foreign entities are not well established, and only audited financial statements are received for those domestic subrecipients for whom an A-133 audit is not required.

Status:

Addressed within Corrective Action Plan to current year's finding 01-6.

00-7 Equipment and Real Property Management

Four exceptions out of 57 items tested were found. The University did not investigate differences between the physical inventory and the equipment management system in a timely manner.

Status:

These exceptions were investigated and reconciled upon identification in the A-133.

00-8 Service Centers/Recharge Centers

For the service center tested, we noted that there was not an adequate basis for the determination of rates based on costs charged to users.

Status:

The office of Sponsored Research has been actively engaged with service center personnel to ensure that rates are timely and accurate.

00-9 Over-awards of Student Financial Aid

Of 36 undergraduate and graduate students tested, one student was awarded student financial aid in an amount greater than his/her cost of attendance.

Status:

The College established a reconciliation process for all funds including Outside Awards (with Student Receivables) and FWSP earnings (with Student Employment Office). The reconciling uses the University's ADAPT accounting system and has been in place for well over a year, enabling the College to identify, and resolve if necessary, funds received from all sources which do not necessarily arrive first to the Financial Aid Office for approval.

00-10 Work-study Timecards

During testing of 13 timecards for college work study, we noted one instance where the timecard was not signed by a responsible individual.

Status:

Additional outreach and communication from the Student Employment Office has reduced the incidence of missing signatures on timecards. In FY01, all timecard reviewed were signed, appropriately.

HARVARD UNIVERSITY

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Corrective Action Plans/Responses to Findings

The University is divided into three segments under Cost Accounting Standards and as such, has slight variations in policy and practice between and among the segments. For this reason, when applicable, each segment (Faculty of Arts and Sciences, Harvard Medical School and Harvard School of Public Health) has responded separately, as shown.

Finding 01-1 Allowable Costs/Cost Principles

Costs considered unallowable will be transferred to non-sponsored funding sources. The University will continue to educate research administration personnel in cost allowability, which costs should be considered direct versus indirect, and the importance of monthly monitoring of sponsored expenses. These topics will be addressed through ongoing training sessions in the schools, the new research administration website, and the new Disclosure Statements. The Office of Sponsored Research will continue its risk-based, post-audit procedures and provide additional and individual training in high-risk areas.

The University has established new procedures with affiliated hospitals which require that all invoices for reimbursement against Harvard University sponsored accounts be sent to the Office of Sponsored Research for approval on the Web Voucher system. This will allow us to preaudit for potential unallowable costs before the charges are posted.

Finding 01-2 Cost Transfers

Effective January 2, 2002, the University implemented a new cost transfer policy requiring that cost transfers be completed 90 days after the 15th of the month following that in which the original charge was recorded. The cost transfer form was also simplified in language and intent with the idea that simplification will improve compliance.

The Faculty of Arts and Sciences ('FAS') held a 'training lunch' on November 5, 2001 where the new cost-transfer policy was outlined. After fine-tuning some of the procedures with the Office of Sponsored Research, FAS hosted a dedicated training session on January 31, 2002. FAS does not anticipate any problems complying with the new cost transfer policy.

During fiscal 2002, the Harvard Medical School (HMS) clarified local policies and procedures in conjunction with the refining of the Harvard University cost transfer policy. We are continuing to refine procedures and turn-around time for payroll cost

transfers because HMS uses a local payroll office. HMS has added an internal control and review step to the process. HMS Associate Dean for Finance will review and provide an internal approval of proposed cost transfers. Through this centralized approach, HMS will monitor recurring problems in managing sponsored accounts so that remedial action can be taken. HMS and Office of Sponsored Research staff presented a workshop on this subject to nearly 60 research administrators on December 12, 2001.

On December 4, 2001, Harvard School of Public Health ('HSPH') hosted an Office of Sponsored Research presentation on the Harvard University's new cost transfer policy that went into effect on January 2, 2002. All HSPH departments were represented at this training session. HSPH has an automated local financial system that is a front-end application that submits an hourly journal voucher feed to Harvard University's General Ledger which has been modified to reflect the new cost transfer policy parameters. When it appears as if a cost transfer may be required, the system issues a warning to the preparer to that effect. One trained administrator in each department has been granted the ability to override the cost transfer warning, if appropriate; otherwise, a cost transfer form will print out of the system for the administrator to complete.

Finding 01-3 Equipment and Real Property Management

The two items with missing tags had been subsequently tagged in June, 2001. The disposed item had been properly transferred and is correctly noted as "disposed of" in the equipment management system of record.

The equipment management office conducts its next biennial physical inventory in April 2002. Executing this inventory requires extensive communication with departments. All due diligence will be made to improve the flow of information between the offices during this inventory and subsequent periods.

Finding 01-4 Effort Reporting

With portions of two new full time employees' time dedicated to faculty and monthly effort reporting and new monitoring procedures in place since April, 2001, the Faculty of Arts and Sciences ('FAS') is essentially 100 percent compliant with Harvard University policy. Documentation of collection of salary certifications for the fourth quarter of fiscal year 2001 and the first quarter of fiscal year 2002 are at 100 percent, and for the second quarter of FY 2002 at 99.2% (ten missing certifications out of 1245). The policy and procedures are delineated on the FAS research web site and have been reiterated at training sessions in May and November, 2001, for all research administrators.

The Harvard Medical School ('HMS') continues to collect monthly effort certifications on a quarterly basis and strives for a high percentage of compliance. HMS reviews signatures for compliance with the policy that effort certifications should be signed by an individual with first-hand knowledge, normally the principal investigator.

At the Harvard School of Public Health ('HSPH'), annual faculty and monthly staff certifications are generally signed by the principal investigators. HSPH Office of Financial Services ('OFS') continues to send department administrators an e-mail at month-end, to remind them to run the Monthly Effort Certifications for the prior month. Faculty annual salary and effort certification forms are mailed out centrally to the departments. HSPH OFS continues to log in and track the returned forms; the rate of return continues to be strong.

Finding 01-5 Reporting

We will continue to track due status of financial reports from the HURIS report schedule. Now that Financial Services in the Office for Sponsored Research is fully staffed, we are able to submit reports to sponsors in a more timely manner. In addition, we are developing more specific roles and responsibilities and time lines to streamline interaction between the Office of Sponsored Research and departments in the preparation and submission of financial reports and eliminate delays caused by slow response from departmental administrators.

Finding 01-6 Subrecipient Monitoring

We have prepared a two-part subrecipient monitoring policy. Part One addresses the active solicitation of A-133 audit reports from subrecipients and has been approved by the Sponsored Programs Operating Committee ('SPOC'). Part Two provides guidelines for principal investigators and departmental administrators for the review of the financial and programmatic management of all subrecipients' projects and the documentation of that review. Part Two was presented to SPOC in December 2001, subsequently approved, and is in the process of being implemented.

Finding 01-7 Incorrect Cost of Attendance

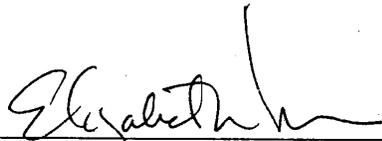
The Financial Aid Offices at both faculties are working with their Registrar's Offices in structuring a system for improved reporting of mid-year and non-standard changes to tuition and fee charges. In addition, the Graduate School of Design has updated its system to accept comprehensive changes to fees so that individual, manual changes are not required. Both of these initiatives will further improve the Financial Aid Office's ability to monitor and effectively manage changing cost of attendance throughout the year.

Finding 01-8 Change of Documentation

The increase in the cost of attendance at the College was documented with the amount (\$1400) and reason (Senior Year Expenses). The file was documented, but not as detailed as the College normally requires for all professional judgment adjustments. This limited

documentation was an exception to our policy and procedures, but had no bearing on the eligibility or amount of aid received by this student in the campus-based programs.

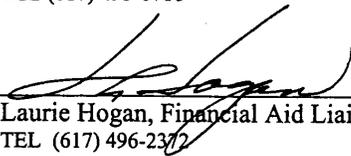
To ensure that changes to EFC are consistently documented in ART and the Design School, policies on documenting changes have been reviewed with staff, as have procedures for storing this documentation electronically and/or on paper in the student file. In addition, the University Financial Aid Liaison Office will continue to facilitate training on professional judgment as part of its annual FAO Training Series.



Elizabeth Mora, Director of Sponsored Research
TEL (617) 495-0716

3.13.02

Date



Laurie Hogan, Financial Aid Liaison Officer
TEL (617) 496-2372

3/13/02

Date