PART IV

FINDINGS
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 See Schedule of Expenditures of Federal Awards
Student Financial Assistance

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
Section III. Federal Awards Findings and Questioned Costs

02-1 Allowable Costs/Cost Principles

Section J.15 states that costs of entertainment are unallowable. 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. Section J.46.a states that taxes from which exemptions are available to the institution are unallowable.

Of the 120 transactions selected at the University for direct cost testing totaling $430,770, we noted transactions totaling approximately $2,348 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 nine costs listed below, six were unallowable costs related to such items as entertainment and celebratory meals and state tax and three questioned or unallowable direct costs related to insufficient documentation.

<table>
<thead>
<tr>
<th>Federal grant number</th>
<th>Agency</th>
<th>Number of transactions</th>
<th>Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>R-82735301</td>
<td>EPA</td>
<td>1</td>
<td>$75.00</td>
<td>Travel charges not directly allocable to the award due to lack of attribution.</td>
</tr>
<tr>
<td>5 R01 AR45651-02</td>
<td>NIH-NIAMS</td>
<td>2</td>
<td>66.94</td>
<td>Sales tax erroneously charged to the award.</td>
</tr>
<tr>
<td>N00014-01-1-0651</td>
<td>Defense</td>
<td>2</td>
<td>310.10</td>
<td>Unallowable meals removed from award after sample selected.</td>
</tr>
<tr>
<td>DMS-9810774</td>
<td>NSF</td>
<td>1</td>
<td>949.40</td>
<td>Insufficient evidence that this air ticket was the lowest available fare.</td>
</tr>
<tr>
<td>5 U01 M H60220-03</td>
<td>NIH-NIMH</td>
<td>1</td>
<td>86.52</td>
<td>Meal charges not directly allocable to the award due to lack of attribution.</td>
</tr>
<tr>
<td>5 T32 GM07753-23</td>
<td>NIH-NIGMS</td>
<td>1</td>
<td>300.00</td>
<td>Entertainment fee erroneously charged to the award.</td>
</tr>
<tr>
<td>5 T32 GM07753-23</td>
<td>NIH-NIGMS</td>
<td>1</td>
<td>560.00</td>
<td>Insufficient evidence that this air ticket was the lowest available fare.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$2,347.96</td>
<td></td>
</tr>
</tbody>
</table>

Recommendaition: The University should strengthen controls over the direct charging of costs to awards. We recommend that period expense reports be monitored timely, both departmentally and centrally, to correct erroneous charges on awards. We also recommend improvement in documentation for direct attribution to awards, as well as for lowest available airfare.

02-2 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 five exceptions of 34 items selected. One item was listed on the inventory listing, but had been disposed of. One item was located on the floor, but was not listed on the inventory listing. The inventory listing indicated that one item was disposed of when it was not. Two items were disposed of, but disposition of equipment forms were not submitted.
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.

02-3 Effort Reporting

OMB Circular A-21, J.8 requires at least an annual effort 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. In addition, the University has a policy requiring timely submission of effort certifications.

The University primarily uses the plan confirmation method for faculty and the after-the-fact activity method for other staff. We tested 30 effort reports for timely completion and proper certification and submission. Of our sample, we noted 4 reports were submitted between 1 and 99 days after the deadline, and one report which was signed 11 months after the effort was expended.

Recommendation: The University should continue to ensure that effort certifications are completed and submitted in accordance with federal and University policies in a timely manner.

02-4 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 thirteen progress reports, we noted that two were not submitted timely as specified in the terms and conditions of the award (NIH-NIGMS award 5 P01 GM62566-02 and NIH-NEI award 5R01 FY 11655-05). Both were submitted within one month of the due dates.

In testing the completion of six minority vending reports, we noted one that was submitted one month after the due date as specified in terms and conditions of the award (NASI-18946).

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 25 awards for which an annual or final financial report was required, we noted 10 that were not submitted within the terms specified by the grantor agency. Of those, two were submitted within one month of the due date, four were submitted within three months of the due date, and four 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.
01-1 Allowable Costs/Cost Principles

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

Status:
All of the 20 questioned costs noted above were removed from the federal awards.

01-2 Cost Transfers

Seven out of 45 cost transfers tested did not have adequate documentation as to the reason for the transfer.

Status:
A standard naming convention has been established for the batch header of cost transfer journal vouchers. OSR/Financial Services staff run monthly reports of all journal vouchers $500 or more debiting federal sponsored accounts. This is a tool for OSR and tub administrators to review transactions for proper cost transfer documentation.

01-3 Equipment and Real Property Management

Three 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:
Two of three equipment exceptions were located, tagged and inventoried subsequent to the audit finding, in June 2001. The third item had been disposed properly and correctly noted as such in the equipment system of record. The equipment management office conducted its biennial inventory in April 2002 and expanded its outreach efforts to schools and departments on equipment management procedures.

01-4 Effort Reporting

Thirty exceptions out of 45 items tested were found. The University did not ensure that effort reports were completed in accordance with federal and University policies.

Status:
Controls have been implemented at the local level to ensure effort reports are completed and collected in a timely fashion. The corrective action plan comments for finding 01-04 addressed improvements to effort reporting practices which have been consistently followed through FY2002.

01-5 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 progress report was not submitted timely as specified in the terms and conditions of the award.
Status:

See corrective action plan for current year finding 02-4.

01-6  **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:

The new University Subrecipient Monitoring Policy, introduced in fiscal year 2003, contains guidelines for departmental administrators on the risk-based monitoring of foreign subrecipients.

01-7  **Incorrect Cost of Attendance**

Of 37 undergraduate and graduate students tested, two students were awarded student financial aid in amounts less than their cost of attendance.

Status:

The two cases in question were resolved and a cost of attendance overview was provided to the University’s financial aid community.

01-8  **Change of Documentation**

Student cost of attendance was insufficiently documented in three out of 37 student financial aid files tested.

Status:

The cases in question were resolved and appropriate documentation requirements were reviewed with the University’s financial aid community.
Harvard University
Corrective Action Plans/Responses to A-133 Audit Findings
for the year ending June 30, 2002

Harvard 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 02-1 Allowable Costs/Cost Principles
All costs considered unallowable will be transferred to non-sponsored funding sources by February 1, 2003. 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, in collaboration with senior school financial officers, provide additional and individual training in high-risk areas.

The Faculty of Arts and Sciences (FAS) provides training updates to staff involved with sponsored research on a regular basis. Also, feedback from the A-133 auditors is distributed to all FAS research administrators each January, with sample findings and suggestions for improvement. This year, references to Harvard’s travel and entertainment policies were incorporated, since some direct-cost findings were in these areas. In addition, FAS Research staff are working on a customized version of the Principal Investigator’s Handbook, to be issued in the spring of 2003, which will provide updated information on several important topics in grants management, including proposal submission, Harvard’s internal approvals, direct costs, cost sharing, cost transfers, expanded authorities, financial reports, progress reports, account closeout, indirect costs, intellectual property, patents and copyrights, and conflict of interest. The new PI Handbook will be distributed to all research faculty and staff.

The direct cost exceptions at the Harvard Medical School (HMS) were for domestic travel on a research award and for domestic travel and purchased services on a training award. In conjunction with Harvard Medical School’s new Office for Research Compliance, we will be implementing an expanded training program during FY2003 for sponsored administration personnel. Special emphasis will be placed on HMS’s Sponsored Expenditure Policy and the Harvard Travel Policy. The Office of Sponsored Research will continue its post-audit procedures in these areas.

At the Harvard School of Public Health (HSPH) there were two questioned costs on its federal awards. One was a $75 travel charge not directly allocable to the award due to lack of attribution. The department in question has recently instituted a new “trip number” policy, and all expenses related to a particular trip will carry this same internally-generated number. This will help to ensure proper attribution, so that all expenses related to the same trip, are charged to the same account(s).

The other questioned cost was $66.94 in erroneously charged sales tax. HSPH believes this was an anomaly. It is extremely rare for a vendor to include sales tax on an invoice. Departments will be reminded to watch out for this, however.
Finding 02-2  Equipment and Real Property Management
Of 34 equipment items selected, five exceptions were noted.
- One item had been traded in but was not recorded with a disposal form. Harvard will improve its oversight of equipment disposal and work with department equipment officers to ensure proper recording of disposals.
- An existing item had not been included in the inventory system of record at the time of audit, but was subsequently added to the inventory list. Harvard will increase its outreach efforts with department equipment officers to ensure compliance with the requirements of a full property inventory.
- Another existing item was indicated as disposed because of its incorrect net book value of $0. Its actual book value was reentered into the system of record and thus is included in the current inventory. Harvard will closely monitor equipment with $0 net book values to assess the accuracy of their values, location and use.
- Two disposed items were indicated as such during the biennial inventory, but lacked the typical disposal forms. While practice allows disposed items to be recorded either by completing a disposal form or by indication during the biennial inventory, policy prescribes the use of disposal forms. Harvard will amend its policies on disposal authorization controls and ratify this and all other policy changes through its Sponsored Programs Operating Committee (SPOC), the University’s decision making body for sponsored research policies. Harvard will also improve its oversight of equipment disposal and work with department equipment officers to ensure proper recording of disposals.

Finding 02-3  Effort Reporting
The findings for Effort Reporting at Harvard Medical School (HMS) in FY2002 were for timeliness of submission of Annual Faculty Salary and Effort Certifications completed for FY2001. Two of the four certifications cited were dated only one and five days after the due date. The completion rate for the FY2001 surveys was 94% and HMS plans to improve upon that this year using the success of the Monthly Certification process as a model. For instance, extended attempts were made to communicate to the departments the importance of having the forms signed and dated by the due date. Additionally, a new training program will be provided for administrators that will review due dates and procedures, as well as the HMS salary and effort certification policies.

The Harvard School of Public Health (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. This is followed up by reminder telephone calls if the forms have not been returned within several weeks.
Finding 02-4 Reporting

We will continue to track due status of financial reports from the HURIS report schedule. For FY2004, the Grants Management Application System (GMAS, the new system of record for sponsored accounts, is intended to go live 1/1/2004) will track due status for all reports and will issue notifications of reports due to all concerned. GMAS will provide better information on past due reports and reporting status will be visible to all GMAS users in the center and in the schools.

We have revised the University sponsored financial reporting policy to define more clearly roles and responsibilities of Office for Sponsored Research staff and departmental research administrators in the financial reporting process. This clearer definition together with more specific response timelines is streamlining interaction between the Office of Sponsored Research and departments in the preparation and submission of financial reports and eliminating delays caused by slow response from departmental administrators. In addition, a more equitable redistribution of workload between Sponsored Research Financial Analysts in Financial Services based on objective account metrics will greatly reduce the risk of reporting backlogs.

John S. Bain,  
Associate Director for Cost Analysis & Compliance  
TEL (617) 495-1520  john_bain@harvard.edu  

January 17, 2003  
Date