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
  Student 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
  Yes

Section II. Financial Statement Findings

None
Section III. Federal Awards Findings and Questioned Costs

03-1 Allowable Costs/Cost Principles
Circular A-21, Section J.46.a states that taxes from which exemptions are available to the institution are unallowable. Section C.2 states that costs are only allowable when allocable to sponsored agreements.

Of the 120 transactions selected at the University for direct cost testing totaling $911,080, we noted five transactions totaling approximately $1,034 (CFDA #: 93.865, 93.135, and NSF subagreement from MIT, and one AID award) 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 five transactions, three were unallowable costs related to sales tax and two were unallowable costs charged incorrectly to the selected grants.

Recommendation
The University should continue to strengthen controls over the direct charging of costs to awards particularly with respect to sales tax. We recommend that expense reports continue to be monitored timely, both departmentally and centrally, to correct erroneous charges on awards.

03-2 Disclosure Statements
The University negotiated three indirect cost rate proposals effective fiscal year 2003. The instructions for disclosure statements in Appendix A of OMB Circular A-21 require that disclosure statements be updated when significant changes have occurred. The University did update and submit for review the disclosure statement for the University Area. However, the University did not update or submit the disclosure statements for the School of Public Health or the Harvard Medical School in December 2002 with the indirect cost rate proposals. PwC has been informed by the University that in 1998 and 1999 the Medical School and Public Health segments submitted original disclosure statements for review at the time they were required to do so. PwC has been further informed by the University that these statements have yet to be audited by Division of Cost Allocation or the Inspector General’s Office of Department of Health and Human Services.

03-3 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.

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 thirty awards for which an annual or final financial report was required, we noted five that were not submitted within the terms specified by the grantor agency (CFDA #: 93.856, 93.846, 93.859, 45.163 and one Neighborhood Reinvestment Corp.). Of those, one was submitted within one month of the due date, two were submitted within three months of the due date, and two were submitted after three months of the due date.

Recommendation
We recommend the University continue to strengthen controls for monitoring due dates of both technical and financial reports and ensure that they are filed in a timely manner.
03-4 Making and Disbursing Loans

Regulation 674.16 regarding the disbursement of Perkins Loans states that before an Institution makes its first disbursement to a student, the student shall sign the promissory note. Of the 70 files tested, we noted one instance where Perkins Loan funds were credited to a student account before the student signed the promissory note (CFDA # 84.038). The student subsequently signed the note.

Recommendation
We recommend the University closely monitor the loan application process to ensure that all students sign promissory notes before funds are credited to their student account.
Harvard University
Summary Schedule of Prior Audit Findings

02-1 Allowable Costs/Cost Principles
9 out of 120 direct costs were identified as questioned costs.

Status
All of the 9 questioned costs noted above were removed from the federal awards.

02-2 Equipment and Real Property Management
Five exceptions out of 34 items tested were found. The University did not investigate differences between the physical inventory and the equipment management system in a timely manner.

Status
The corrective action plan was implemented, no similar finding occurred in 2003.

02-3 Effort Reporting
Five out of 30 reports tested were filed late; four were between 1 and 99 days after the deadline. One was signed 11 months after the effort was expended.

Status
The corrective action plan was implemented, no similar finding occurred in 2003.

02-4 Reporting
25 financial status reports, 13 performance reports and six minority vending reports were tested for timely completion and submission. There were 10 instances where financial status reports were not submitted within the terms specified by the grantor agency, and there were two instances where progress reports were not submitted timely as specified in the terms and conditions of the award. One minority vending report tested was submitted after the due date as specified by terms and conditions of the award.

Status
See corrective action plan for current year finding 03-3.
Harvard University
Corrective Action Plans/Responses to A-133 Audit Findings
For the Year Ending June 30, 2003

Harvard University is divided into three segments under Cost Accounting Standards: (1) The University Area (principally the Faculty of Arts and Sciences (FAS), the Kennedy School of Government, the Graduate School of Education, and others), (2) Harvard Medical School (HMS) and (3) the Harvard School of Public Health (HSPH). Accordingly, each School has responded to the particular finding(s) for which they are responsible, as indicated below.

Finding 03-1 Allowable Costs/Cost Principles
All unallowable costs described below have been transferred to non-sponsored funding sources. The University will continue to educate research administrators throughout the institution on cost allowability principles and practices. This will be delivered through organized training sessions, one-on-one support, and the Office for Sponsored Research web site. Emphasis will continue to be placed on direct vs. indirect expenses, as well as the importance of monthly monitoring of expenses on sponsored awards.

At the Faculty of Arts and Sciences (FAS), the direct cost exception was for $1.09 in sales tax erroneously charged to a federal award. The FAS has reversed this charge and believes it was an anomaly because it is rare for vendors to charge sales tax on a Harvard invoice. FAS provides training updates to staff involved with sponsored research on a regular basis, and the A-133 audit findings are disseminated to all FAS research administrators each January. Department administrators will be reminded via both of these mechanisms that Harvard University does not pay sales tax on most purchases.

At the Kennedy School of Government (KSG) there were two questioned costs on federal awards. One was $3.49 in sales tax mistakenly charged which has been reversed. The second cost exception was a $336.57 payroll tax charge that was treated as extra compensation generated by an emergency flight cost. This charge has also been reversed. KSG administrators will review cost allowability rules during their next sponsored finance training session.

At the Harvard School of Public Health (HSPH), there were two questioned costs on federal awards. One was $92.50 in sales tax that was mistakenly included in the price of a notebook computer. This charge has been removed from the federal award and charged to a non-sponsored account. The other was a $600.00 charge for purchased services that was incorrectly charged to a federal award but was later reversed within the grant period. In FY2004, HSPH and the Office for Sponsored Research will continue to provide regular training sessions to staff.
involved with sponsored research; these sessions will include a refresher presentation on allowable costs.

**Finding 03-2 Disclosure Statements**
Pending response from the Department of Health and Human Services’ Division of Cost Allocation, or its Inspector General’s Office, the Harvard School of Public Health and the Harvard Medical School will comply with all future disclosure statement requests from the federal entities. The University Area will also continue to comply with all such related requests.

**Finding 03-3 Reporting**
For the remainder of FY2004, Harvard will continue to track the status of financial reports with its existing reporting tool HURIS. In FY2005 Harvard will begin tracking report status with the Grants Management Application Suite (GMAS), the new system of record for sponsored accounts currently under development. GMAS is being designed to provide better information on past due reports and will automatically issue notifications of due reports to all relevant parties. In addition, reporting status will be visible to all GMAS users centrally and in the schools and departments.

The University will be increasing its focus on reporting by combining the improved accountability provided by GMAS’ report notification functionality and strategically managing responsible staff to make report timeliness a higher priority.

**Finding 03-4 Making and Disbursing Loans**
In the fall of 2003, the Student Loan Office moved from paper to electronic promissory note signing for Perkins Loan borrowers. The new automated process prevents Perkins funds from being disbursed until an e-signature is captured from each borrower. While SLO continues to process a small number of paper promissory notes, the Data Processing Group has been apprised of the finding and will manually review each paper promissory note for signature, moving forward. We believe that automating the signature process for the vast majority of loans and implementing manual checks on the smaller, remaining paper promissory note volume, will significantly reduce the risk of a similar finding in subsequent years.

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Jan. 23, 2004  Date