Part IV

Findings
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
   Name of Federal Program or Cluster
   Various CFDAs
   Research and Development and Research Training
   Student Financial Assistance
   Various CFDAs
   Dollar threshold for Type A and B programs
   $3,000,000
   Auditee qualifies as a low-risk auditee
   Yes

II. Financial Statement Findings

None
Section III. Federal Awards Findings and Questioned Costs

04-1 Allowable Costs/Cost Principles
Circular A-21, 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 $173,840, we noted three transactions totaling approximately $639 (CFDA #s: 93.393, 93.394, 47.076) where there was not supporting documentation to directly attribute the costs to the award or where specific awards had been charged in error. All three transactions were removed from the related awards after PwC selected the transactions for testing.

Recommendation
The University should continue to strengthen controls over the direct charging of costs to awards.

Management's Views and Corrective Action Plan
Following these findings are management's views and corrective action plan regarding this finding.

04-2 Disclosure Statements
The instructions for disclosure statements in Appendix A of OMB Circular A-21 require that disclosure statements be updated when significant cost accounting changes have occurred. Harvard has three disclosure statements. The University Area disclosure statement was approved in 2002. 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. We have been further provided documentation from the University that both entities have received extensions to file their disclosure statements subsequent to year end: HMS on August 12 and SPH on July 12, 2004. As of June 30, 2004 the School of Public Health and Harvard Medical School had not yet updated their disclosure statements as required.

Recommendation
We recommend the School of Public Health and the Harvard Medical School update their disclosure statements within the new extension periods granted by the Department of Health and Human Services.

Management's Views and Corrective Action Plan
Following these findings are management's views and corrective action plan regarding this finding.

04-3 Travel Pricing
The University’s fiscal 2004 sponsored projects travel policy lays out specific guidelines for obtaining lowest reasonable airfare on flights charged to federal awards. Of nineteen travel transactions tested, we noted four instances (CFDA#: 93.393, 12.910, 47.050, 93.853) in which the documentation that lowest reasonable airfare was obtained in accordance with University policy was not available.

Recommendation
We recommend the University conduct additional training and education to the grant managers and principal investigators regarding the travel policy.

Management's Views and Corrective Action Plan
Following these findings are management's views and corrective action plan regarding this finding.
04-4 Reporting
Circular A-110 Section 51 requires that annual performance 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 sixty awards for which a financial report was required, we noted seven that were not submitted within the terms specified by the grantor agency (CFDA #: 10.302, 93.854, 10.206, 16.560, 12.800, 93.862, 12.420). The submission of the reports ranged from one day late to 34 days late.

Recommendation
We recommend the University continue to analyze the reasons for late reporting and ascertain if alternative procedures should be implemented.

Management's Views and Corrective Action Plan
Following these findings are management's views and corrective action plan regarding this finding.

04-5 Treatment of Title IV Funds When a Student Withdraws
Regulation 668.22 provides guidance regarding the treatment of Title IV funds when a student withdraws from an institution. Paragraph (b) (ii) (c) specifies the need to determine a consistent withdrawal date; paragraph (2) (A) details the requirement for the Institution to complete the calculation of the amount of Title IV funds earned within 30 days of the student's withdrawal date; paragraph (e) explains the method to calculate the Title IV funds earned; and paragraph (i) explains the required sequence of return of Title IV funds.

Of the 23 files tested, we noted the following: six student files requiring a return of Title IV funds had inconsistent withdrawal dates between the registrar and the withdrawal notice signed by the student; four files contained calculations that were not performed within thirty days of withdrawal; three files did not contain a calculation of Title IV funds earned when a calculation was required; and one instance where Title IV funds were refunded to the federal government in an improper sequence. In this instance, the funds were refunded to Perkins first ($3,000) and then to Unsubsidized Stafford ($3,492) rather than to Unsubsidized Stafford first.

The majority of the findings related to one graduate school except for two instances in which the undergraduate school did not complete the refund calculation within thirty days (all were completed between 31 and 60 days late).

Recommendation
We recommend that the University closely monitor, in particular at the schools with the exceptions noted above, the procedures for students who withdraw to ensure that Title IV funds are returned to the Federal Government in an accurate and timely manner. In addition, the University should reemphasize the requirements related to processing the return of Title IV funds by offering training to the individuals responsible for processing such refunds.

Management's Views and Corrective Action Plan
Following these findings are management's views and corrective action plan regarding this finding.
03-1  Allowable Costs/Cost Principles

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

Status
All of the 5 questioned costs noted above were removed from the federal awards.

03-2  Disclosure Statements

Disclosure statements for the Harvard Medical School and the School of Public Health were not updated in 2002 as required.

Status
See corrective action plan for the current year finding 04-2.

03-3  Reporting

30 financial status reports were tested for timely completion and submission. There were 5 instances where financial status reports were not submitted within the terms specified by the grantor agency.

Status
See corrective action plan for current year finding 04-4.

03-4  Making and Disbursing Loans

Of 70 student files tested, there was one instance where Perkins Loan funds were credited to a student account before the student signed the promissory note.

Status
The student subsequently signed the note.
Management's Views and Corrective Action Plans Regarding A-133 Audit Findings For the Year Ending June 30, 2004

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) 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 04-1 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, 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, and on the Office for Sponsored Programs web site. The OSP will continue its risk-based, post-audit procedures, and in collaboration with school senior financial managers, provide additional and individual training in high-risk areas.

At the Faculty of Arts and Sciences (FAS), there were two questioned direct costs on the federal awards. One was $200.00 in travel expenses and the other was $192.82 in supplies. Both transactions posted late in the fiscal year and were removed within Harvard’s cost transfer adjustment period of 90 days, but after the audit sample was selected. The FAS will continue to promote diligence among its departmental grant accountants to ensure the validity of accounts to which sponsored transactions are posted and to re-evaluate systems in which sponsored accounts are charged automatically for recurring costs.

At the Harvard School of Public Health (HSPH), the one direct cost finding was an unallowable copier rental expense of $245.67, which was unallowable due to lack of backup documentation in the department file. Although this was an allocable expense, it points out the need for better internal controls, specifically over the retention of
appropriate documentation in department files. HSPH will stress this need for keeping appropriate documentation in ongoing training.

**Finding 04-3 Disclosure Statements**
In December 2004, the Harvard School of Public Health submitted its updated Disclosure Statement to the Department of Health and Human Service’s Division of Cost Allocation. The Harvard Medical School will submit its updated DS-2 within the extension period granted by the Department of Health and Human Services, by December 31, 2005.

**Finding 04-4 Travel Pricing**
We will continue to provide training sessions throughout the institution on the University’s Sponsored Travel Cost Policy. The emphasis of out-reach training efforts will continue to be placed on the importance of using Harvard’s preferred travel vendors, and maintaining documentation for supporting the lowest cost airfare when the travelers use another travel agent/service.

**Finding 04-5 Reporting**
We will continue to track due status of financial reports with the newly implemented Grants Management Application Suite (GMAS). GMAS provides an effective tool for tracking due reports by automatically sending notifications of due reports to all relevant parties. In addition, we will continue to streamline interaction between the OSP and school departments in the preparation and submission of timely financial reports to reduce or eliminate delays caused by slow response from departmental administrators.

**Finding 04-5 Treatment of Title IV Funds When a Student Withdraws**
In response to this finding, the Financial Aid Training Committee held a two-hour Return of Title IV Funds Workshop in the fall of 2004. This workshop was attended by at least one representative from each of our (13) Financial Aid Offices across campus. In addition, a representative from the University Financial Aid Liaison Office attended the Department of Education’s all-day workshop on the same topic. Finally, the Directors of Financial Aid Steering Committee will be sending a memo to the Registrars on campus, noting this finding and the importance of collaboration and coordination between offices.

Signed:  

John S. Bain  
Associate Director for Cost Analysis & Compliance  
Office for Sponsored Programs

[Signature]

Ryan Williams  
Director of Student Financial Services  
Office of Financial Services

date: January 31, 2005