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

Identification of major programs

Various CFDAs
Name of Federal Program or Cluster
Research and Development and Research Training

Various CFDAs
Student Financial Assistance

47.076
Education & Human Resources

93.266
Rapid Expansion of Antiretroviral Therapy Programs

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

05-1 Allowable Costs/Cost Principles
Circular A-21, Section C.2 states that costs are only allowable when allocable to sponsored agreements.

Of the 140 transactions totaling $277,766 selected at the University for direct cost testing, we noted two transactions totaling approximately $335 (CFDA #s: 93.867 - $169.33, 93.846 - $165.75) where specific awards had been charged in error. One of the transactions (CFDA 93.846) was removed from the related award 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.

05-2 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.

Section 44(b) requires that positive efforts shall be made by recipients to utilize small businesses, minority-owned firms, and women's business enterprises, whenever possible. All recipients of EPA grants and cooperative agreements are required to set a "Fair Share" Minority and Women-Owned Business Enterprise (M/WBE) Utilization Goal. The principal investigator must report his/her progress quarterly to the EPA on Form 5700-52A.

In examining thirty four reports for ten awards that require either the Subcontracting Plan for Small and Small Disadvantaged Business or the EPA Form 5700-52A, we noted that one Subcontracting Plan for Small and Small Disadvantaged Business was not submitted timely and two EPA Forms 5700-52A were not submitted timely. (CFDA #s 12.431, 66.509, 66.607). The submission of the reports ranged from 1 day late to 332 days late.

In examining sixty awards for which a financial report was required, we noted two that were not submitted within the terms specified by the grantor agency (CFDA #: 12.910 and NASA Award No. NGT5-101). The submission of the reports ranged from 2 day late to 37 days late.

In examining 14 non-financial reports due, we noted one non-financial report that was not submitted within the terms specified by the grantor agency (Department of State Award No. S-ECAAIE-05-GR-008(JJ)). The submission of the report was submitted 4 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.
05-3 Effort Reporting
Circular A-21 Section J.10.C(1)(e) requires that at least annually a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed, stating that salaries and wages charged to sponsored agreements as direct charges, and to residual, F&A cost or other categories are reasonable in relation to work performed.

In examining effort certifications relating to fifty-four payroll distribution transactions, we noted two transactions where monthly effort certification forms were not signed (CFDA 84.309, Department of Energy Award No. DE-FG02-02ER63445).

Recommendation
The University should continue to strengthen controls over effort reporting.

Management's Views and Corrective Action Plan
Following these findings are management's views and corrective action plan regarding this finding.
Harvard University
Summary Schedule of Prior Audit Findings
June 30, 2005

04-1 Allowable Costs/Cost Principles

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

Status
The 2004 corrective action plan was implemented. All of the 3 questioned costs noted above were removed from the federal awards.

04-2 Disclosure Statements

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

Status
The disclosure statement for the School of Public Health was submitted during FY 2005. The Medical School obtained an extension to file through September 2006.

04-3 Travel Pricing

Of 19 travel transactions tested, there were 4 instances in which the documentation that lowest reasonable airfare was obtained in accordance with University policy was not available.

Status
The Sponsored Travel Policy has been revised in early 2006 to reflect changes in documentation requirements in rare and unusual cases where travel cannot be booked through one of Harvard's preferred travel agencies. Instead of requiring a copy of airfare price from one of Harvard's preferred vendors as the evidence of obtaining lowest reasonable airfare, the new policy requires a documented explanation of why the Harvard preferred vendor was not used. Acceptable reasons for not using preferred vendors include (1) reimbursements for travel expenses to non-Harvard visitors, (2) last minute/emergency travel, (3) foreign travel to destinations not supported by the preferred vendors, and (4) group rates. In such cases the expense will be reviewed to ensure that class of service is allowable and that the amount expensed passes a "reasonableness" test. If an adequate reason is not provided on the web voucher, the web voucher will be returned and the airfare expenses will be charged to a nonsponsored account.

04-4 Reporting

60 financial reports were tested for timely completion and submission. There were 7 instances where financial reports were not submitted within the terms specified by the grantor agency.

Status
The 2004 corrective action plan was implemented. However, see corrective action plan for current year finding 05-2.
04-5  Treatment of Title IV Funds When a Student withdraws

Of the 23 files tested, PwC noted the following: 6 student files requiring a return of Title IV funds had inconsistent withdrawal dates between the registrar and the withdrawal notice signed by the student; 4 files contained calculations that were not performed within thirty days of withdrawal; 3 files did not contain a calculation of Title IV funds earned when a calculation was required; and there was 1 instance where Title IV funds were refunded to the federal government in an improper sequence.

Status
Subsequent to the FY 2004 audit, further research was conducted by management regarding the 2004 finding. It was subsequently noted that in three cases the students never attended fall classes and in one case, an intent-to-withdraw letter filed in the spring for the upcoming fall semester and was incorrectly identified as a formal withdrawal notice filed during the spring semester, for the then current spring semester. This additional information was discussed with PwC. As a result, the findings associated with these files were, in retrospect, not applicable. Back-up detail on all (6) files was filed with, and reviewed by, the Department of Education, Region I office on July 29, 2005.

The remaining instances were isolated to one school and one financial aid administrator. Since the audit, the financial aid officer has attended R2T4 training sessions in the fall of 2004 and 2005 and received one-on-one R2T4 training from University Financial Aid Liaison Office staff.

In addition to training, a new findings review process has been implemented. Beginning with the FY 2005 audit, the central University Financial Aid Office as well as each applicable School financial aid office will be provided with a full set of documentation for each potential finding to help ensure that all relevant facts are considered prior to finalizing the SFA audit.
Management's Views and Corrective Action Plans Regarding A-133 Audit Findings For the Year Ending June 30, 2005

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 05-1 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 and the importance of monthly monitoring of sponsored expenditures. These topics will be delivered through ongoing training sessions in the schools, and through 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.

In the Faculty of Arts and Sciences (FAS), the direct cost exception was for $169.33, for double-counted hotel charges resulting from a miscalculation. The FAS has reversed this charge. Starting in the fall of 2005, in collaboration with OSP, the FAS Sponsored Programs Administration initiated a series of monthly training meetings for research administrators. One of the first sessions in the spring of 2006 will focus on allowability and allocability. The FAS also hosted, in January, a dedicated session of the NCURA Fundamentals of Research Administration course, which was attended by approximately 70 administrators. Through these and other training opportunities, the FAS continues to work to improve the knowledge and sophistication of its research administrators.

The direct cost exception at the Harvard Medical School (HMS) was for a $165.75 supply cost that was erroneously charged to a federal award; the charge was removed within Harvard’s cost transfer adjustment period of 90 days, but after the audit sample was selected. The department in which this error occurred has a small volume of sponsored awards. A faculty member with multiple grants recently transferred to this
department and therefore allocating supply costs to various grants is somewhat new to this group; the Department Administrator is working with staff to help them deepen their understanding of allowability and allocability principles. In addition, HMS has an ongoing training program for staff who administer sponsored awards. We have been reviewing the curriculum and plan to have more frequent case study sessions to introduce and reinforce key topics. Expense allocation is a topic we cover thoroughly in our Fundamental classes and we plan to include it as a regular topic in case study sessions.

**Finding 05-2 Reporting**
Reporting exceptions were identified in three areas in this year’s audit: reports on the utilization of small businesses, minority-owned firms, and women’s business enterprises (3); financial reports (2); and non-financial reports (1).

As a federal contractor, the University is required to submit periodic reports to the federal government concerning its accomplishments in purchasing and subcontracting with small businesses and minority vendors. The Office for Sponsored Program (OSP), in collaboration with the Central Procurement Office, recently updated and streamlined the procedures for monitoring and tracking submission deadlines. The OSP also worked with Procurement and others in enhancing the coordination among central offices and departments in complying with federal agencies’ specific reporting requirements.

We will continue to track due status of both financial and non-financial reports through the Grants Management Application Suite (GMAS). GMAS is being deployed in multiple phases across the University which will make due reporting status visible to all GMAS users centrally and in the schools and departments. Ongoing outreach and training efforts throughout the University will continue to emphasize the importance of timely submission of both financial and non-financial reports required by federal agencies.

In 2005, the Office for Sponsored Programs (OSP) underwent several organizational changes, including merging previously separated pre- and post-award functional units serving the University area into three Life Cycle Teams that manage sponsored awards from proposal development to close-out. In October 2005, the OSP post-award function units (i.e., the HMS and HSPH financial teams) were relocated to the Longwood campus to be closer to HMS and HSPH pre-award offices and departmental administrators. We believe this effort will enable us to be more effective in communicating and interacting with the network of research administrators and other professional staff who share responsibility for complying with various federal agencies’ requirements.

**Finding 05-3 Effort Reporting**
The findings for effort reporting in 2005 included one grant at Harvard Medical School (Dept of Genetics) and one grant at the Graduate School of Education. In both cases the monthly effort certification forms were not signed.

The Department of Genetics consistently turns in all its monthly effort certifications on a timely basis. All certifications are sent to the Finance Office and logged in to a database and then filed. After this unsigned certificate was noted, we reviewed all other effort
certificates for the department for the month in question and all others were accounted for and signed. Additionally we reviewed the other 11 months of certificates for this grant and all of those were signed. It appears that this unsigned report was a random oversight. To strengthen controls, the staff person in the Finance Office will scan all incoming certificates for signatures and dates before logging them in to the database.

In Graduate School of Education (GSE), the exception was the effort reporting for the NCSAL grant. GSE has reviewed the effort certifications for NCSAL with the Principal Investigator. GSE has convened monthly meetings of the Financial Administrators Networking Group (FANG). This group has spent the last three meeting discussing the importance of completing timely and accurate effort reports and identifying and resolving any obstacles to the current process. Additionally, GSE has asked this finding to be shared with the faculty stressing the importance of these reports and their responsibility for signing them.

Signed:

[Signature]

Date: 2-16-06

Elizabeth Mora

Associate Vice President for Sponsored Programs

Office for Sponsored Programs