PART VI

FINDINGS
Harvard University and Radcliffe College
Schedule of Findings and Questioned Costs
for the year ended June 30, 1999

Section I. Summary of Auditors' Results

Financial Statements
Type of auditor's reports issued:

Internal control over financial reporting:
  Material weakness(es) identified
  Reportable condition(s) identified that are not considered to be material weaknesses

Noncompliance material to financial statements noted

Federal Awards
Internal control over major programs:
  Material weakness(es) identified
  Reportable condition(s) identified that are not considered to be material weakness(es)

Type of auditor's report issued on compliance for major programs:

Audit findings required to be reported in accordance with OMB Circular A-133, Section .510(a):

Identification of Major programs:
  Research, Development and Training
  Student Financial Assistance

Dollar threshold for Type A and B programs

Auditee qualifies as a low-risk auditee

Unqualified as to Harvard University and Radcliffe College

No

None reported

No

No

None reported

Unqualified

Yes, see Part III of this schedule

See Combined Schedule of Expenditures of Federal Awards

$3,000,000

Yes

Section II. Financial Statement Findings

None
### Section III. Federal Award Findings and Questioned Costs

#### A. Harvard University

**Finding 99-1 Allowable Costs/Cost Principles**

OMB A-21, section F.6.b requires that costs incurred for the same purpose in like circumstances should 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. Of the 120 transactions selected at Harvard for direct cost testing totaling $331,621 we noted transactions totaling $5,032 where there was no supporting documentation to directly attribute the costs to the award or where specific awards had been charged in error. Of the ten questioned costs listed below, five related to telephone charges, two were for health insurance, and the others related to travel, fax charges, and photocopying.

<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>NAG-1-2007</td>
<td>National Aeronautics and Space Administration</td>
<td>1</td>
<td>$ 194.49</td>
<td>Telephone charges not directly allocable to the award due to lack of attribution.</td>
</tr>
<tr>
<td>DPE-A-00-91-00052-22</td>
<td>Agency for International Development</td>
<td>1</td>
<td>20.75</td>
<td>Telephone charges not directly allocable to the award due to lack of attribution.</td>
</tr>
<tr>
<td>R 825359-01-02</td>
<td>Environmental Protection Agency</td>
<td>1</td>
<td>161.39</td>
<td>Telephone charges not directly allocable to the award due to lack of attribution.</td>
</tr>
<tr>
<td>R 825359-01-02</td>
<td>Environmental Protection Agency</td>
<td>1</td>
<td>640.45</td>
<td>Charge for health insurance expense not directly allocable to the award due to lack of supporting documentation.</td>
</tr>
<tr>
<td>R 825359-01-02</td>
<td>Environmental Protection Agency</td>
<td>1</td>
<td>1,503.50</td>
<td>Charge for health insurance erroneously charged to the award.</td>
</tr>
<tr>
<td>R01 HS08071-04 (A)</td>
<td>Agency for Health Care Policy and Research</td>
<td>1</td>
<td>996.24</td>
<td>Photocopying charges not directly allocable to the award due to lack of attribution.</td>
</tr>
<tr>
<td>R01 EY0344-24</td>
<td>National Eye Institute</td>
<td>1</td>
<td>18.83</td>
<td>Charge for faxing not directly allocable to the award due to lack of attribution.</td>
</tr>
<tr>
<td>U01 AI38855-03</td>
<td>National Cancer Institute</td>
<td>1</td>
<td>201.05</td>
<td>Telephone charges not directly allocable to the award due to lack of attribution.</td>
</tr>
<tr>
<td>R35 CA47554-11 (B)</td>
<td>National Cancer Institute</td>
<td>1</td>
<td>792.20</td>
<td>Charge for travel on a non-U.S. flag carrier.</td>
</tr>
<tr>
<td>R35 CA47554-11 (B)</td>
<td>National Cancer Institute</td>
<td>1</td>
<td>503.39</td>
<td>Telephone charges not directly allocable to the award due to lack of attribution.</td>
</tr>
</tbody>
</table>

| Total                |                                             | 10                     | $5,032.29|
**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 direct attribution requirements for costs which are normally treated as facilities and administrative costs. Also, we recommend that monthly expense reports are monitored timely, both departmentally and centrally, to avoid unallowable charges on awards.

**Finding 99-2 Reporting**

Circular A-110 Sections 51 and 52 require that annual reports shall be due 90 calendar days after the grant year; quarterly or semi-annual reports shall be due 30 days after the reporting period. Performance reports should be submitted at least annually. In examining 25 awards for which an annual or final financial report was required, we noted three that were not submitted within the terms specified by the grantor agency. In testing the completion of 15 performance reports, we noted two were not submitted timely as specified in the terms and conditions of the award.

Circular A-110 Section 21 requires records that identify adequately the application of funds for federally sponsored activities. We noted an instance where a student's contract submitted by the University in support of a training grant was less than the amount charged to the grant for the student's tuition, books, and fees.

**Recommendation:** We recommend that the University strengthen controls for monitoring due dates of reports, both technical and financial, to ensure that reports are filed in a timely manner. We also recommend improving monitoring of reports to ensure the accuracy of the contents.

**Finding 99-3 Service Centers/Recharge Centers**

OMB Circular A-21, Section 44.C states that the cost of institutional services should be charged directly to users based on actual use of the services and a schedule of rates to support the charges to federal and nonfederal users. Charges for the use of specialized service facilities should be designed not to recover more than the aggregate cost of the services over a long-term period. For one of the service centers tested, we noted that there was not an adequate basis for the determination of rates based on costs charged to users. We also noted that this service center had accumulated a surplus over the past five years.

**Recommendation:** The University should ensure that the techniques used to determine user rates and to allocate costs are consistent for all service centers. Also, the University should develop a monitoring system to identify those service centers that are accumulating surpluses and establish a procedure for adjusting future cost recoveries in order to deplete the surplus.
Finding 99-4 Cost Transfers

The PHS Grants Policy Statement requires that transfers of costs must be made promptly after the error is discovered. The transfers must also be supported by documentation that contains a full explanation of how the error occurred and a certification of the correctness of the new charge. The University's cost transfer policy states that the reason for each cost transfer must be properly and clearly explained on the cost transfer form or journal voucher. In examining 30 cost transfers at Harvard, we noted four instances where the reason for the transfer was not adequately documented.

Recommendation: We recommend that the University continue to monitor cost transfers. Explanations for transfers should be clearly documented on cost transfer forms or the journal voucher, as appropriate, to ensure adequate justification for the transfer.

Finding 99-5 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. The University uses the plan confirmation method primarily for the faculty staff and the after-the-fact activity method for other staff. Under the regulations, these certifications should be signed by the employee, principal investigator, or responsible official. We examined 20 payroll transactions of which nine required at least monthly certification and 11 required at least annual certification.

We noted two instances where the certification was not complete. We also noted two instances where the salary certification was signed by a financial administrator and not a principal investigator.

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

Finding 99-6 Overawards of Financial Aid

Regulations regarding the Coordination of Student Aid Programs require that an institution establish controls to ensure financial assistance is not awarded in excess of a student's financial need. It was noted during testing of forty students that two individuals in the undergraduate program were awarded aid in an amount greater than their cost of attendance. Each student exceeded the $300 allowable threshold with overawards of $1,022 and $2,888, respectively.

Additionally, three graduate students were found to have received an overaward of Federal Work-Study monies in the aggregate amount of $758. In two of the instances the students earned more in Federal Work-Study than they had originally been awarded at the beginning of the academic term. The third student received an overaward of aid because the payroll register reported a higher hourly wage than did the student's time card.

Recommendation: The University should closely monitor the awarding of Federal funds to ensure that aid is not disbursed in excess of financial need and that amounts overawarded should be refunded to the government by the University. Additionally, the payroll register and student time cards should periodically be reviewed for any variances.
B. Radcliffe College

None
Other Audit Findings

The DHHS Office of Inspector General (OIG) conducted an audit of National Research Service Awards (NRSA) at the University. The OIG's report was issued July 28, 1999, and covered the period July 1, 1997 through June 30, 1998. The objectives of the audit were to determine whether student recipients of NRSA worked on Federal research grants which related to the same research as their NRSA planned training experience and also to determine whether the University charged Federal research grants for research assistants' services prior to services being performed.

As a result of this audit, the OIG found that the University generally complied with the requirement of not paying compensation to students from federal research grants which support the same research that is part of the student's NRSA planned training. They did note one case in which the University paid $9,578 from a federal research grant for work related to the same research as the student's planned training. They also found that the Faculty of Arts and Sciences charged federal research grants and paid 18 students an amount totaling $50,485 for research assistant services prior to services being performed.

Recommendation: OIG recommended that the University reimburse the federal government $9,578 and develop written policies which require that compensation not be paid from research grants which support the same research that is part of the student's NRSA planned training experience. OIG also recommends that the University stop the practice of charging federal research grants for research assistants' service prior to services being performed.
The following is a summary of prior year findings and the status of each.

**98-1 Direct Costs**

15 out of 120 directs costs were identified as questioned costs.

**Status**

All of the 15 questioned costs noted above were removed from the federal awards.

**98-2 Reporting**

24 awards were examined for timely completion of financial status (FSR) reports. There were 5 instances where reports were not submitted with the terms specified by the grantor agency. 12 performance reports were tested for timely completion and submission. There were 5 instances where reports were not submitted timely as specified in the terms and conditions of the award.

**Status**

See current year's finding 99-2.

**98-3 Service Centers/Recharge Centers**

Certain facility costs included in the service center rates are not consistently determined across different units on a rational basis in accordance with Harvard's policy.

**Status**

See current year's finding 99-3.

**98-4 Subrecipient Monitoring**

The University did not consistently follow its established policies to ensure that subrecipients are appropriately monitored.

**Status**

There were no similar findings in the current year.
98-5 Student Financial Assistance Reporting

The number of undergraduates documented on the FISAP report was understated. Additionally, a mathematical error resulted in an overstated Perkins Loan Federal Capital Contribution request.

Status
Errors were corrected in a subsequent filing of the FISAP.

98-6 Health Education Assistance Loan Reporting Requirements

It was noted that in five out of five cases tested, a copy of a HEAL check or draft was not maintained in the recipient's financial aid file.

Status
Health Education Assistance Loans are no longer awarded at the Harvard Medical school as the students are instead eligible to receive an increase in Federal Direct Unsubsidized Stafford loans. Consequently, the HEAL program was not tested as part of the 1998-1999 award year audit.

Other Audit Findings

Department of Health and Human Services (DHHS) Office of Inspector General (OIG) conducted an on-site review assessing the University's compliance with DHHS's regulations related to Cash Management. As a result of this review, OIG recommended that the University perform an interest calculation for letter of credit accounts when the bank cashes the check, rather than when the University has earned interest on the checks, and submit any interest earned to the Payment Management System.

Status
As a result of new systems capabilities, the University now bases its DHHS letter of credit cash drawdowns on bank clearance date rather than transaction date for expenses incurred on DHHS funded programs. For letters of credit not drawn based on check clearance date, the University performs interest calculations in accordance with recommendations made by OIG based on their review.
Harvard University
Corrective Action Plan

1999 A-133 AUDIT FINDINGS

Finding 99-1 Allowable Costs/Cost Principles

The University has removed the costs in question and will continue to monitor charges on federal awards. Training efforts have been initiated by the financial administration for the identification of unallowable costs charged to federal awards within the University’s new financial accounting system implemented during the current fiscal year. These efforts will be ongoing as the University stabilizes its operations within the new systems environment.

Finding 99-2 Reporting

The University will continue to emphasize the importance of timely report submission during its training efforts both at departmental and central levels. Policies regarding lines of responsibility for documentation and approvals of certain transactions were implemented during the last fiscal year in an effort to improve data processing and reporting within the University’s high volume environment. The Office for Sponsored Research is currently reengineering its sponsored research database of record that is expected to yield improved reporting efficiency in the future.

Finding 99-3 Service Centers/Recharge Centers

As part of the recent implementation of a new accounting system, the University has significantly expanded the availability of detailed expense codes used for charging line item expense transactions. The expanded object code list contained within the new system will provide higher level detail for service center costing and related documentation. The Office for Sponsored Research has provided written guidelines to departments for their use towards charging expense at precise and detailed levels using these new object codes.

Finding 99-4 Cost Transfers

The University will continue its efforts in monitoring cost transfers for proper, timely, and complete documentation. This area receives and will continue to receive scrutiny by accountants within the Office for Sponsored Research during its ongoing review of award expenditures.
Finding 99-5 Effort Reporting

The University utilizes a consistently applied system for the certification of effort by research personnel and will continue this practice in future periods. The University contends that first hand knowledge of research being performed is held among a diverse group, which typically includes principal investigators and certain grant administrators. With proper controls in place, we believe this is reasonable given the dynamic environment in which research activities are conducted. Accordingly, the University’s effort reporting system reasonably ensures that effort is certified appropriately.

Finding 99-6 Overawards of Federal Aid

To address the issue of exceeding need, we have initiated a Tax and Needs Analysis Training Workshop for Harvard Financial Aid Officers. In addition, we are reviewing our reconciliation process for aid awarded and aid disbursed and plan to implement the recommended improvements during the 2000-2001 academic year.

Other Audit Findings

Department of Health and Human Services

The University has reimbursed the federal government the amount in question. The issue that compensation should not be paid from research grants which support the same research that is part of the student’s NRSA planned training experience has been addressed through discussions with the Sponsored Programs Operating Committee (SPOC), which is a group convened monthly represented by senior personnel in research intensive schools and central Office of Sponsored Research staff. Further, the audit report issued by DHHS-OIG has been distributed and discussed with central and school-based financial aid officers. Finally, written guidelines have been developed and directed both to research assistants and departmental administrators that provide guidance and solutions that will serve to stop the practice of charging federal research grants for research assistants’ service prior to services being performed.

[Signature]
Elizabeth Mora
Director of Sponsored Research Operations

[Signature]
Nona D. Strauss
Director of Student Financial Services