



**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Overseers of Harvard College:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Harvard University (the "University"), which comprise the balance sheet as of June 30, 2014, and the related statements of changes in net assets with general operating account detail, changes in net assets of the endowment and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

November 7, 2014



**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133**

To the Board of Overseers of Harvard College:

Report on Compliance for Each Major Federal Program

We have audited Harvard University's (the "University") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2014. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-001 through 2014-003. Our opinion on each major federal program is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit is described in the accompanying Management's Views and Corrective Action Plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

March 2, 2015

Part III Findings

Harvard University
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weakness(es) identified?	No
Significant deficiency(ies) 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
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes

Identification of Major Programs

CFDA Number(s)	Name of Federal Program/Cluster
Various	Research and Development Cluster
Various	Student Financial Assistance Cluster
19.401	Vietnam Fulbright Economics Teaching Program
Dollar threshold used to distinguish between Type A and Type B programs	\$3,000,000
Auditee qualified as a low-risk auditee?	Yes

II. Financial Statement Findings

None noted

Harvard University

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

III. Federal Award Findings and Questioned Costs

2014-001 – Subrecipient Monitoring

Grantor: Various

Award Name: Various

Award Year: 07/2013 – 06/2014

Award Numbers: Various

CFDA Numbers: Various

Condition

The University has various policies and procedures in place to monitor subrecipients at the grant level including among others, review of invoices, review of technical/performance reports and frequent communication with subrecipients which allow the University to verify that the subrecipient expenditures are incurred in accordance with the requirements of the federal award. In addition, the University's policy requires that subrecipients comply with OMB Circular A-133 requirements and notify the University upon completion of required audits and of any adverse findings which impact the subaward. However, based on our review of the University's monitoring procedures, while the University has policies in place to review reports issued pursuant to OMB Circular A-133 ("A-133 reports"), the University does not have procedures in place related to the following:

- 1) Ensuring that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period;
- 2) Issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, including assessing whether the finding necessitates an adjustment of the University's records;
- 3) Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

The University obtains a download of A-133 results for their subrecipients from the Federal Audit Clearinghouse (FAC) database, however upon receiving these summary results, further monitoring is not performed on those subrecipients that have material weaknesses, significant deficiencies, and other compliance findings to assess the potential applicability to the University's subaward.

Criteria

OMB A-110, *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, paragraph 51(a), states that a pass-through entity is responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. OMB Circular A-133, Subpart D, Section 400(d) further indicates a pass-through entity is responsible for:

- 1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period.
- 2) Issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report and ensuring that the subrecipient takes timely and appropriate corrective action.
- 3) Considering whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

Harvard University

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Cause

The University has policies in place, which include the required elements under OMB Circular A-133 in regards to the review of A-133 reports, however, specific responsibilities have not been communicated to properly implement the policies.

Effect

Without the appropriate level of subrecipient monitoring, the University may not be aware of noncompliance issues that are directly related to the awards that are passed-through to subrecipients. In addition, the University has increased risk that federal funding disbursed to a subrecipient will not be effectively managed and expended in accordance with the terms and conditions of its agreement with the federal agency.

Questioned Cost

There are no questioned costs.

Recommendation

We recommend that the University enhance its current procedures to clearly define where the responsibility resides for the review of A-133 reports. This will ensure that the review is executed consistently and accurately in accordance with the compliance requirements.

Management's Views and Corrective Action Plan

Management's views and corrective action plan is included at the end of this report after the summary schedule of prior audit findings and status.

Harvard University

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

2014-002 Unallowable Costs

Research and Development Cluster

Agency: Department of Health and Human Services; Department of Energy

Grantor: National Institutes of Health/National Center for Research Resources; Department of Energy

Award Title: New England Primate Research Center Base Grant; Microbial Ecology, Proteogenomics and Computational Optima

Award Number: 3P51OD011103-51S1 REVISED; DE-FG02-02ER63445

Award Year: 5/1/2012 – 12/31/2014; 12/1/2013 – 11/30/2014

CFDA # and Title: 93.351 – Research Infrastructure Programs; 81.049 - Office of Science Financial Assistance Program

Condition

During our testing of 100 direct cost selections for the Research and Development Cluster, two exceptions were noted for these awards totaling \$3,719. The first related to a salary selection for a retroactive payment that was allocated to the grant through a manual journal entry using an incorrect percentage of effort. The payment of \$5,572 was charged to the grant at 100% of the individual's effort although their actual effort for the applicable period was 62%. As a result, \$2,117 of unallocable costs were charged to the grant. In the second instance, an expense was charged to the grant at the total cumulative amount owed to the vendor rather than at the total amount invoiced for the period. As a result, \$1,602 of unallocable costs were charged to grant.

Criteria

OMB Circular A-21, *Cost Principles for Educational Institutions*, Section C.2 states that to be allowable under an award, costs must be reasonable for the performance of the award and be allocable thereto under these principles, conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items, be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization, be determined in accordance with generally accepted accounts principles (GAAP), and be adequately documented.

Cause

Unallowable costs were charged to these awards.

Effect

The University is at an increased risk of charging federal grants for costs which are unrelated to the award due to a lack of effective controls to prevent or detect unallowable costs.

Questioned Costs

\$3,719

Recommendation

We recommend that the University emphasize to all employees its policies and procedures regarding the documentation requirements and review process for grant expenditures to help ensure that all expenses charged to federal awards are properly documented and reviewed for accuracy. The amounts in question should also be refunded to the awards.

Management's Views and Corrective Action Plan

Management's views and corrective action plan is included at the end of this report after the summary schedule of prior audit findings and status.

Harvard University

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

2014-003 Reporting

Agency/Grantor: Environmental Protection Agency

Award Title: Are diabetics and the neurologically impaired at increased risk from air pollutant exposures - A National analysis; The effect of air pollution control on life expectancy in the United States: national population-based analysis

Award Number: RD-83490001-0; 83489401-0

Award Year: 4/1/2011 – 3/31/2014; 7/1/2013 – 6/30/2014

CFDA # and Title: 66.509 – Science to Achieve Results (STAR) Research Program

Condition

The University has established policies and procedures to report accurately and timely under federal regulations. In a sample of 12 non-financial reports selected for testing related to minority vending, we identified two instances where the annual EPA Form 5700-52A had not been submitted within 30 days of 9/30/2013 as required. They were submitted seven months late.

Criteria

In accordance with 40 CFR Part 33 section 502, the EPA Form 5700-52A for minority vending must be completed by recipients of Federal grants, cooperative agreements, or other Federal financial assistance which involve procurement of supplies, equipment, construction or services to accomplish Federal assistance programs. Recipients are required to report 30 days after the end of each federal fiscal quarter, semiannually, or annually, per the terms and conditions of the financial assistance agreement. Woman business enterprise (WBE) and minority business enterprise (MBE) participation must be reported by all recipients, including those recipients exempted under §33.411 from the requirement to apply the fair share objectives, on EPA Form 5700-52A. Institutions of higher education, hospitals and other non-profit organizations receiving financial assistance agreements under 40 CFR part 30, will report on MBE and WBE participation on an annual basis.

Cause

The reports were not submitted due to lack of oversight at the grant level personnel responsible for the grants selected.

Effect

Late submission of minority vending reports may hinder awarding agencies' sponsoring decisions and may potentially affect future funding decisions.

Questioned Costs

There are no questioned costs.

Recommendation

We recommend the University continue to emphasize through training and communication the University's policies surrounding non-financial reporting and the deadlines for each required report so that University staff are aware of the policies and requirements.

Harvard University

Summary of Status of Prior Audit Findings

Year Ended June 30, 2014

2013-001 Return of Title IV Funds

Student Financial Assistance Cluster

Grantor: Department of Education

Award Name: Federal SEOG, Federal Direct Loans, Federal Perkins Loan

Award Year: 07/2012 – 06/2013

Award Numbers: Various

CFDA Numbers: 84.007, 84.038, 84.268

In examining 14 students from a population of 59 students tested, two students were identified where the refund form was submitted to the government 127 days and 48 days, respectively, after the date the University determined that the student withdrew. Therefore, the required refund of \$6,237 was not returned within the required 45 days of the students' withdrawal. The funds were ultimately returned to the student (\$3,334) and the government (\$2,775 Pell and \$128 FSEOG) and therefore the effect is a late refund of the Title IV funds to the respective recipient.

PwC recommended that management ensure that all refunds are returned to the respective recipient (student, government, lender) on a timely basis and that a formal control be instituted to review the listing of students who withdrew on a monthly basis and verify that all applicable refunds have been sent in a timely manner.

Status

To correct this finding the College Financial Aid Office worked with their Registrar to create a custom report identifying students who have withdrawn since the last time the report was run. The report runs weekly and is automatically sent to the designated officer in the Financial Aid Offices, who then review the reports and process refunds as required.

In addition, training about Return of Title IV Funds on the Web (R2T4 on the Web) rules and this finding was conducted at the December 11, 2013 Directors of Financial Aid Council meeting and again at the January 15, 2014 Financial Aid Officers Council meeting.

Harvard University

Summary of Status of Prior Audit Findings

Year Ended June 30, 2014

2013-002 Title IV Authorization Forms

Student Financial Assistance Cluster

Grantor: Department of Education

Award Name: Various

Award Year: 07/2012 – 06/2013

Award Numbers: Various

CFDA Numbers: 84.007, 84.038, 84.268

In examining 140 students across the University, PwC noted that 14 students did not sign a Title IV Disbursement Release Form (one at the American Repertory Theatre and 13 at the Graduate School of Design). The Title IV funds were, in part, applied to parking, dormitory fees, student health insurance and library fines, which are non-Title IV eligible but relevant institutional charges that require borrower authorization prior to loan disbursement.

PwC recommended that management implement a control to ensure that a Title IV Disbursement Release Form is signed and retained prior to the disbursement of federal funding.

Status

American Repertory Theatre and Graduate School of Design altered their aid acceptance process to correct this finding. Both schools now require the Title IV authorization to be completed by students and returned with their accepted award letters each year. Training about Title IV authorization rules and this finding was conducted at the December 11, 2013 Directors of Financial Aid Council meeting and again at the January 15, 2014 Financial Aid Officers Council meeting.

Harvard University

Summary of Status of Prior Audit Findings

Year Ended June 30, 2014

2013-003 Unallowable Costs

Research and Development Cluster

Agency: Department of Health and Human Services

Grantor: National Institutes of Health/National Institute of Arthritis and Musculoskeletal and Skin Diseases

Award Title: Molecular and Cellular Mechanisms of Vascular Anomalies

Award Number: 5P01AR048564-09

Award Year: 9/1/2011 – 8/31/2012

CFDA # and Title: 93.846 - Arthritis, Musculoskeletal and Skin Diseases Research

In examining 60 salary transactions under the R&D Cluster, PwC noted one exception where the award was over charged by \$1,576. Therefore, the University charged a federal fund for expenses that were not related to the grant.

PwC recommended that the University should emphasize to all employees its policies and procedures regarding the documentation requirements and review process to help ensure that all expenses charged to federal awards are properly documented and reviewed for accuracy. The amount in question should also be refunded to the award.

Status

The unallocable charge of \$1,576 has been removed from the award referenced above. Policies and procedures have been revised to strengthen the review and approval process around posting salary to sponsored awards. A new role has been added to the Harvard School of Dental Medicine (HSDM) that will serve as an additional measure of verification and reconciliation to ensure that the appropriate supporting documentation and approvals are obtained prior to posting expenditures to a sponsored award. Additionally, local administrators have completed additional training to strengthen compliance in this area.



2014-001 – Subrecipient Monitoring

The Office for Sponsored Programs will perform a review to identify subrecipients who haven't completed an A-133 report and those with findings and will request copies of the reports and corrective action plans for subrecipients with findings. The Sponsored Administration Leadership Committee and the Subrecipient Monitoring Committee will review and update our current policy and processes as well as clarify roles and responsibilities for subrecipient monitoring.

2014-002 – Unallowable Costs

The New England Primate Research Center (NEPRC) will identify and perform secondary reviews on any non-regular salary payments to insure they are reconciled with the effort reporting system. Additionally, Human Resources payroll division has communicated and trained all existing staff on proper payroll processing procedures and will perform ongoing training and communication to ensure all staff are aware of payroll processing procedures. Lastly, the unallocable costs were removed from the grant.

The Department of Genetics at Harvard Medical School is reviewing business processes to determine if there are opportunities to reduce the risk of human error in processing accounts payable. Harvard Medical School has also addressed this at departmental grants manager meetings to raise awareness and increase communication about attention to detail. Additionally, the unallocable costs were removed from the grant.

2014-003 – Reporting

To ensure the due dates of all minority vending reports are properly monitored across the University, the Sponsored Programs Administration (SPA) office will facilitate training and communication of the importance of observing the reporting requirements of non-financial reports. At the award set up stage, the departments will be required to work with the SPA Office to schedule the due dates of the minority vending reports in GMAS, Harvard's Grants Management Application Suite, for proper tracking and timely actions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'CBreen'.

Catherine Breen
Senior Director, Office for Sponsored Programs
(617) 495-9047