

Part IV
Findings

Harvard University
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
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:	Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes
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Identification of major programs

<u>CFDA Number(s):</u>	<u>Name of Federal Program or Cluster</u>
Various CFDA's	Research and Development and Research Training Cluster
Various CFDA's	Student Financial Aid Cluster
93.266	Rapid Expansion of Antiretroviral Therapy Programs under the President's Emergency Plan for AIDS Relief (PEPFAR)
93.399	Cancer Control
Dollar threshold for Type A and Type B programs:	\$3,000,000
Auditee qualifies as a low-risk auditee?	Yes

II. Financial Statement Findings

None noted

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Section III. Federal Awards Findings and Questioned Costs

2007-1 Contact with the Borrower

Student Financial Aid Cluster

In accordance with the Code of Federal Regulations, 34 CFR 674.42c, the University is required to contact the borrower for a second time 150 days after the commencement of any grace period. At this time, the University is required to notify the borrower of the date and amount of the first required payment.

Of the 15 students selected for Perkins repayment testing, six were in a grace period at some time during fiscal year 2007. For each of these six students, the second contact was made 180 days after the start of the grace period, rather than the 150 days as required by the Code of Federal Regulations (Federal Perkins Loan Program, CFDA 84.038, for award year July 1, 2006 - June 30, 2007).

We understand based on discussion with management, that the notification error was caused by processing error at the servicer, which distributes the grace period letters for the University. We note that all six students received their first grace period contact letter on a timely basis, and where applicable, received their third grace period contact letter on a timely basis. The effect of late second notices is that students may not be informed of the first required payment in time to make the correct payment in a timely manner.

Recommendation

Management should ensure that contact with the borrower occurs on a timely basis. We recommend that the University institute a formal oversight process over the activities of the servicer to ensure that grace period contact letters are distributed in a timely manner.

Management's Views and Corrective Action Plan

Following these findings are management's views and corrective action plan.

2007-2 Reporting

Research and Development Cluster

Circular A-110 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 Environmental Protection Agency ("EPA") grants and cooperative agreements are required to set a "Fair Share" Minority and Women-Owned Business Enterprise ("MWBE") Utilization Goal. The University must report its progress quarterly to the EPA on Form 5700-52A. The University must also report to the administrative contracting officer semi-annually during contract performance on Standard Form 294 ("SF294") for each contract containing a subcontracting plan, for the periods ended March 31st and September 30th. Reports are due 30 days after the close of each reporting period unless otherwise directed by the contracting officer.

Harvard University

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In examining 55 Financial Status Reports due on either Standard Form 269 ("SF269") or Standard Form 272 ("SF272"), we noted that 2 reports were not submitted timely (Department of the Air Force Award # FA9550-04-1-0208 - *Performance Optimization of Complex Systems* (Air Force Defense Research Sciences Program - CFDA # 12.800) for award budget year April 1, 2006 - March 31, 2007 and Department of Energy Award # DE-FG02-05ER64099 - *Sixth International Conference on Systems Biology (ICSB 2005)* for award budget year August 1, 2005 - July 31, 2006. The reports were submitted 49 days late and 155 days late, respectively. These two reporting delays occurred before the implementation of new procedures developed to address late reporting in fiscal year 2007.

In examining 10 reports due on EPA Form 5700-52A, we noted that 6 reports were not submitted timely (US Environmental Protection Agency Award # RD-83172501-2 - *Metal Mixtures and Children's Health* for award budget year June 1, 2004 - May 31, 2009, # RD- 83215801-0 - *Bayesian and Adjoint Inverse Model Analysis of PM Sources in the United States Using Observations From Surface, Aircraft, and Satellite Platforms* for award budget year January 1, 2005 - December 31, 2007, # RD-83075801-0 - *Children's Vulnerability to Environmental Immunotoxicant Exposure* for award budget year May 5, 2003 - May 4, 2007, # RD-83083801-2 - *Cardiovascular Responses to Particulate Exposure* for award budget year May 5, 2003 - May 4, 2008 (all under Science to Achieve Results (STAR) Research Program - CFDA # 66.509), # RD-83095901 - *FDP-Application of a Unified Aerosol-Chemistry-Climate General Circulation Model* for award budget year March 23, 2003 - March 22, 2007 and # R-82943701-2 - *Dioxins, Male Pubertal Development and Testis Function* for award budget year February 4, 2002 - February 3, 2008, (both under CFDA # 66.500). 2 reports were submitted 15 days late; 3 reports were submitted 16 days late; and 1 report was submitted 93 days late.

In examining 10 reports due on Form SF294, we noted that 1 report was submitted 133 days after the deadline (Air Force Research Laboratory Award # FA8650-06-C-7622 - *Integrated Nanoscale Nanowire Correlated Electronic Nanosensing Technology (INNOCENT)* for award budget year October 1, 2005 - September 30, 2007).

The lateness of the EPA and Form SF294 reports was due to the lack of a centralized tracking mechanism for the due dates of the reports in the University's system.

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

Recommendation

We recommend the University review the circumstances for each of the late reports, such as staffing issues, data availability, or other issues that would contribute to the filing of forms on an untimely basis, and ascertain if alternative procedures should be implemented to ensure compliance with filing requirements on a timely basis, or initiate dialog with the agencies to receive some modifications to the due dates, if possible.

Management's Views and Corrective Action Plan

Following these findings are management's views and corrective action plan.

2007-3 Debarment and Suspension

Research and Development Cluster

Circular A-110 Section 13 addresses the common rule of "Debarment and Suspension." This common rule restricts subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Harvard University Schedule of Findings and Questioned Costs Year Ended June 30, 2007

For every purchase \$25,000 or greater made with Federal funds, Harvard's internal policy requires the University to obtain written certification from vendors stating that they have not been debarred or suspended. This certification is required to be obtained prior to the related purchase being approved for payment.

In examining 30 transactions over the \$25,000 threshold, we noted 3 certification forms were signed and dated after the related payments had been made for the transactions (National Science Foundation Award # DEB-0321846 - *Plant and Fungal Diversity of Western Sichuan and Eastern Xizang, China* for award budget year August 1, 2003 - July 31, 2007 and # DEB-0531768 - *AToL: COLLABORATIVE RESEARCH: Assembling the Beetle Tree of Life* for award budget year October 1, 2005 - March 31, 2007 (both under Biological Sciences - CFDA # 47.074) and Brigham and Women's Hospital Award # BWH PS155082 - *Informatics for Integrating Biology and the Bedside* (prime sponsor - NIH/NLM, award # U54 LM08748-03) for award budget year August 1, 2006 - July 31, 2007 (Medical Library Assistance - CFDA # 93.879) and 1 transaction for which a signed form could not be located but a form could be located for a previous purchase from the same vendor (National Institutes of Health Award # 5 R01 GM026875-30 (Revised) - *Biochemical Studies of Mitosis* for award budget year December 1, 2006 - November 30, 2007 (Biomedical Research and Research Training - CFDA # 93.859). We noted that the related vendors were not in fact either debarred or suspended at the time of our testing. Due to the large volume of vendor purchases greater than \$25,000, these certification forms were not processed timely.

Late debarment and suspension certification forms may cause the University to engage in business relationships with debarred or suspended vendors, which could cause termination of the related award and could cause the University to become ineligible for future funding.

Recommendation

Management should ensure that all vendors are not debarred or suspended prior to entering into transactions with them. We recommend that the University review its internal policy to determine a more efficient process for verifying the debarment and suspension status of its vendors, such as an annual review of the University's vendor master file.

Management's Views and Corrective Action Plan

Following these findings are management's views and corrective action plan.

2007- 4 Effort Certification

Research and Development Cluster

OMB Circular A-21, Section J.10 requires certification of salary distribution, but does not specify the timelines within which the certifications must be collected.

Harvard's largest three schools, the School of Public Health ("SPH"), the Faculty of Arts and Sciences ("FAS"), and the Medical School ("HMS") have developed policies or procedures for monthly certification of non-faculty salary to comply with this requirement. FAS policy requires certification 30 days after the financial close of each month. HMS policy requires certification within 30 days of the last day of the month being certified. SPH does not have a written policy, but SPH practice is to request that the completed forms be returned within 45 days of month-end, followed by monthly logging and quarterly follow up until completion. Other policies and procedures are in place for faculty effort at each of these and other schools as well.

Harvard University

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Of the 77 effort certifications tested for the Research and Development Cluster, the PEPFAR program (CFDA 93.266) and the Cancer Control program (CFDA 93.399), no exceptions were noted for the timeliness of the completion of the certifications of faculty effort. However, 5 timeliness exceptions were noted for monthly certifications for nonfaculty salary, as described below. All exceptions were found in the Research and Development Cluster.

Within HMS, one certification was completed 173 days late (National Institutes of Health Award #5 P30 AI060354-03 - *Harvard University Center for AIDS Research* for award budget year July 1, 2006 - June 30, 2007 (Allergy, Immunology and Transplantation Research - CFDA #93.855)). This certification had been submitted on time, but the omission of the required signature of the principal investigator (PI) was noted during review. The form was rerouted for completion and was not signed by the PI until 173 days after the due date.

Within FAS, one form was submitted 70 days late (National Science Foundation Award # DEB-0080592 - *LTER III: Long-Term Ecological Research at Harvard Forest* for award budget year June 1, 2005 - June 30, 2008 (Biological Sciences - CFDA #47.074)).

Within SPH, three certifications (National Institutes of Health Award #5 U01 AI068634 - *Statistical and Data Management Center for the AIDS Clinical Trials Group* for award budget year June 29, 2006 - May 15, 2007 (Allergy, Immunology and Transplantation Research - CFDA #93.855) and U.S. Army Medical Research Acquisition Activity Award #W81XWH-05-1-0314 - *Early Life Processes, Endocrine Mediators and Number of Susceptible Cells in Relation to Breast Cancer Risk* for award budget year March 15, 2005 - March 14, 2007 (Military Medical Research and Development - CFDA #12.420)) were submitted between 15 and 40 days after the date cited on monthly emails requesting the completion of the certifications, although all three were identified as outstanding and followed up on. The absence of a written policy stating a due date seems to conflict with the citing of a due date in the SPH request for submission.

Late effort certifications were due to delays in rerouting the certifications for signature and due dates during planned time off for the responsible signers. Late certification increases the risk that inaccuracies in salary distribution may go undetected due to the passage of time.

Recommendation

We recommend Harvard consider the following:

- Continue to emphasize through training and communication the importance of timeliness and accuracy of sponsored programs salaries certifications;
- Formalize the SPH salary certification policies and procedures.

Management's Views and Corrective Action Plan

Following these findings are management's views and corrective action plan.

Harvard University
Summary Schedule of Prior Audit Findings
June 30, 2007

06-1 Reporting

In examining ten reports that require either EPA Form 5700-52A, PwC noted that two forms were not submitted timely. The reports were submitted one month late and two months late, respectively.

In examining sixty financial reports due during fiscal 2007, PwC noted twelve that were not submitted within the terms specified by the grantor agencies.

The lateness of the reports can be grouped as follows: 5 reports were less than one month late, and 7 reports were between one month and eight months late.

Status

The 2006 corrective action plan was implemented. However, please see the corrective action plan to the current year finding 2007-2.

06-2 Allowable Costs/Cost Principles

Of the 110 transactions selected for the R&D program, PwC noted one exception for \$2,215 (CFDA # 47.049) where the award had been charged in error. The expense was removed from the related award after PwC selected the transaction for testing.

Status

The 2006 corrective action plan was implemented. The questioned cost was removed from the federal award.

06-3 Return of Title IV Funds

In one of the 17 items tested, PwC noted an error in the amount of subsidized Stafford funds remitted to the federal government (CFDA #84.032). Such amount was overstated by \$155.

PwC noted two instances where the initial amount of subsidized Stafford returned was incorrect and the corrected amounts of \$551 and \$273 were not returned within the 30 day required period.

Status

The 2006 corrective action plan was implemented.

06-4 Student Status Changes

Of 30 student files selected for this testing, PwC noted one instance where the change in student status was not reported within the required time period (CFDA #84.032).

Status

The 2006 corrective action plan was implemented.

HARVARD UNIVERSITY OFFICE FOR SPONSORED PROGRAMS

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March 12, 2008

Management's Views and Corrective Action Plan

2007-1 Contact with the Borrower

Student Financial Aid Cluster, Perkins Loan, CFDA 84.038, Award Year 07-08

The servicer has calculated the mailing date for the 150-day grace notice by counting backwards from the first bill due date instead of counting forward from the student separation date. For students whose separation date fell after the 17th of the month, the servicer calculated a payment due date that was 30 days later than for students who separated on or before the 17th. As a result, this cohort of students received the 150-day letter late.

In response to this finding, the service has agreed to modify their programming by March 2008 so that the timing of all notices will be based upon the student separation date. The Student Loan Office will monitor this new process by running its own reports of students for whom grace letters are due, and comparing these data to the servicer's once the reprogramming is complete.

It is important to note that the servicer has been determining the mailing dates for the 90-day and 240-day grace notices correctly, by counting forward from the separation date. Further, the University's Financial Aid and Student Loan Offices go to great lengths to make students fully aware of their rights and responsibilities as borrowers before leaving school. As a result our Perkins Loan cohort default rate remains very low, at 1.04%.

2007-2 Reporting

Research and Development Cluster

Reporting exceptions were identified in two areas of the A-133 audit: reports on subcontracting with small business and minority vendors (7) and financial reports (2).

As a federal contractor, the University is required to submit periodic reports to our federal sponsors regarding its accomplishments in purchasing and subcontracting with small business and minority vendors. In late FY07, we implemented the ability to schedule and track minority vending reports due in our system of record, GMAS. This ability enables the central Office for Sponsored Programs (OSP) to provide local department administrators with the detailed transaction information necessary for complete and timely minority spending reports. This information, along with an instructional e-mail, is sent to the department administrators and school leadership in advance of the due dates of

the reports. The ability to track submission of these reports in GMAS will enable OSP to work with school leadership to encourage and support timely submission.

Harvard continues its commitment to timely submission of financial status reports. In early calendar year 2007, OSP implemented the practice of notifying our funding agencies when financial reports would be delayed beyond their due date and requesting a filing extension. The two reports that were submitted after their due dates were due prior to the implementation of this practice. In addition to the notification to the sponsor requesting a filing extension, OSP engaged the services of a temporary employee who has been instrumental in managing our reporting backlog.

2007 -3 Suspension and debarment

Research and Development Cluster

Beginning in early calendar year 2008, a group within the University Office of the Controller, the Strategic Procurement Department, will engage an external, third-party service to confirm that none of the Harvard University vendors are debarred. This third-party service will review Harvard's active vendor listing twice per year in order to identify those vendors that have been suspended or debarred. Procurement will also explore adding collection of the suspension and debarment form (or other, acceptable confirmation) to the University's new vendor set up process when vendors are added for an initial procurement in excess of \$30,000. This process will not include review of Harvard employees nor refunds to existing sponsors.

If the third-party service indicates that any Harvard vendors are debarred,

- The debarred vendor(s) are deactivated in the University's financial system, preventing future payment.
- Procurement determines if any payments have been made to the vendor since the debarment, and, if so, identifies the source of the funds.

If sponsored funds were used to transact with a debarred vendor, the Office for Sponsored Programs works with the department to identify an alternate funding source and refund the grant.

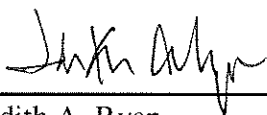
2007-4 Effort Reporting

Research and Development Cluster

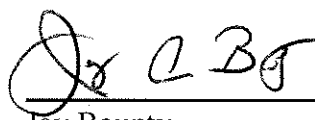
Harvard will continue to emphasize the importance of timeliness and accuracy of sponsored programs salary certification, as PwC recommends. Faculty training and outreach efforts are underway at the Faculty of Arts & Sciences and the Harvard Medical School to reinforce the multiple responsibilities that accompany federal funding, including effort reporting. In fiscal year 2008, the FAS has met with several key FAS department chairs and center directors in separate meetings and has made presentations to faculty members in its two largest research units. FAS provides research administration training to administrators of all its research departments through regular Friday sessions. In fiscal year 2007, HMS Sponsored Programs Administration and the

HMS Office of Research Affairs jointly presented to HMS departmental faculty meetings on research compliance issues, including effort reporting. Training in research administration occurs at HMS through its ASPIRE series and includes effort reporting issues. The School of Public Health has begun a series of meetings between their Chief Financial Officer and their faculty to discuss sponsored issues, including effort reporting. All major research tubs continue to demonstrate a strong commitment to meeting the University's responsibilities for effort reporting, and they continue to dedicate significant personnel resources to the administrative tasks related to effort reporting and salary certification. In addition, the Harvard School of Public Health will develop a written policy which formalizes its current practices, as the other segments have.

Sincerely,



Judith A. Ryan
Director of Cost Analysis and Compliance



Jay Bounty
University Controller
(with respect to 2007-1 and 2007-3)