



SEP 11 1998

CIN: A-01 -98-04000

Ms. Elizabeth Huidekoper  
Vice President for Finance  
Harvard University  
Massachusetts Hall  
Cambridge, Massachusetts 02 138

Dear Ms. Huidekoper:

Enclosed is a brief questionnaire pertaining to the Office of Inspector General Office of Audit Services report which is included along with this letter. We request that you complete it after you have read the report and return it to us in the enclosed envelope.

The questionnaire is one of several methods being implemented by the OIG Office of Audit Services for improving services to the readers and users of our reports. Your response is very important, and will be helpful to us as we seek to improve our products.

Please respond to this questionnaire within two weeks from the date of receipt. We appreciate your cooperation. If you have any questions, please call Donald Czyzewski, Audit Manager, at (6 17) 565-2692. Thank you in advance for your thoughtful completion of this questionnaire.

Sincerely yours,

William J. Hornby  
Regional Inspector General  
for Audit Services

Enclosures - as stated

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF THE  
CASH MANAGEMENT SYSTEM  
HARVARD UNIVERSITY**



**JUNE GIBBS BROWN  
Inspector General**

**SEPTEMBER 1998  
A-01 -98-04000**

# ***OFFICE OF INSPECTOR GENERAL***

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## ***Office of Audit Services***

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

## ***Office of Evaluation and Inspections***

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

## ***Office of Investigations***

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties. The OI also oversees State Medicaid fraud control units which investigate and prosecute fraud and patient abuse in the Medicaid program.

## ***Office of Counsel to the Inspector General***

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

# *NOTICES*

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## **THIS REPORT IS AVAILABLE TO THE PUBLIC**

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In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Final determination on these matters will be made by authorized officials of the HHS divisions.





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CIN: A-O 1-98-04000

Ms. Elizabeth Huidekoper  
Vice President for Finance  
Harvard University  
Massachusetts Hall  
Cambridge, Massachusetts 02 13 8

Office of Audit Services  
Region I  
John F. Kennedy Federal Building  
Boston, MA 02203  
(617) 565-2684

Dear Ms. Huidekoper:

This report presents the results of our audit of the cash management system at Harvard University (University). The objectives of our audit were to determine whether the University's cash management policies and procedures were in accordance with Office of Management and Budget (OMB) Circular A-1 10, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, to (1) limit requests for Federal funds to the minimum amounts needed to carry out the purpose of approved Federal programs and projects, (2) maintain advances of Federal funds in interest bearing accounts, and (3) remit interest earned to the Department of Health and Human Services (HHS), Payment Management System (PMS).

The University limits its cash requests for HHS funds to the amount of issued checks at the time of the cash requests. While the University posts issued checks to the cash disbursements report daily, the University averaged about five requests for HHS cash per month (every six days). We reviewed 100 Accounts Payable (A/P) checks and found that checks did not clear the bank for about 15 days after the transactions were posted to the cash disbursements report. We found that 40 of the 100 checks cleared before the request for Federal funds and for the remaining 60 checks the University received Federal funds an average of 11 days prior to the check clearing. Thus, the University earned interest on a portion of HHS funds (depending upon the date HHS funds are received and the actual date checks cleared the bank). However, the University did not remit the interest earned, as required, to the Federal government. This occurred because the University, in determining whether it earned interest, utilized the cash disbursements report, which includes disbursements as of the date the University issued checks, rather than using the date the bank cleared the checks. As such, the University earned interest on the uncashed checks and related indirect costs but retained the interest income for its own use rather than submit the interest earned to PMS.

We recommend that the University calculate interest earned using a method which considers the date that the bank clears checks rather than the date the University issues checks, and as appropriate, remit interest earned to PMS.

In response to our draft report, University officials recognize that the reported conditions support our recommendation. Further, they believe that initiatives currently underway will directly address the reported conditions and that significant improvements will be made over the next year to the University's cash management processes that will preclude the necessity of performing an interest calculation for letter of credit. (See page 7.)

We are pleased that the University is in the process of improving its cash management system, and we agree that once fully operational, the initiatives should eliminate interest earned on Federal funds. However, until those initiatives are fully operational, it is the University's responsibility to calculate interest earned on Federal funds and remit interest earned, which exceeds \$250, to PMS.

## **INTRODUCTION**

### **BACKGROUND**

Federal departments fund grants and contracts to educational institutions both on an advance and reimbursement basis. When educational institutions receive funds in advance, they must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the actual disbursement. Cash advances should be limited to the minimum amounts needed and timed to the actual, immediate cash necessary to carry out the purpose of approved programs or projects. The timing and amount of cash advances should be as close as is administratively feasible to the actual disbursement for direct costs and the proportionate share of any allowable indirect costs. The OMB Circular A-110 requires educational institutions to maintain advances of Federal funds in interest bearing accounts. In addition, OMB Circular A-110 requires educational institution to remit interest earned on advances annually to PMS. Educational institutions may keep up to \$250 per year for administrative expenses. When Federal departments fund educational institutions on a reimbursement basis, the educational institution must use their own funds to pay for program costs before they request reimbursement from the Federal government.

In fiscal year (FY) 1997, the University expended approximately \$265 million on Federally sponsored research projects, of which HHS funded \$175 million. The University obtains Federal cash to carry out most of its sponsored research programs through 16 letters of credits (LOC). Eleven of the 16 LOCs provide funds through electronic fund transfer systems via the HHS Division of Payment Management's SmartLink II system. For the Federal agencies that do not provide funding through LOCs, the University either uses a direct billing system (reimbursement basis) or receives automatic payments on a regular schedule.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

The objectives of this audit were to determine whether the University's cash management policies and procedures were consistent with OMB Circular A-110, to:

- ◆ Limit requests for Federal funds to the minimum amounts needed to carry out the purpose of approved Federal programs and projects,
- ◆ Maintain advances of Federal funds in interest bearing accounts, and
- ◆ Remit interest earned to the HHS, PMS.

Our audit covered the period October 1996 to September 1997. Further, our audit was limited to HHS grants and contracts, and policies and procedures covering HHS cash management. We did not review the cash management policies and procedures, nor did we test the cash balances *or* interest calculation for other Federal agencies.

To accomplish our objectives, we:

- ◆ Reviewed the University's cash management policies relevant to HHS,
- ◆ Obtained an understating of the major expenses incurred on HHS grants and contracts, including, A/P, payroll, and indirect costs,
- ◆ Obtained an understanding of the University's banking procedures,
- ◆ Held discussions with the University officials, and
- ◆ Tested the A/P check clearing pattern.

Relative to A/P, we judgmentally selected 100 A/P checks totaling \$2,646,694<sup>1</sup> (includes 150 HHS transactions totaling \$ 1,907,487) from the September 1997 cash disbursements report. In September 1997, A/P totaled \$4,696,838 from 7,218 transactions on HHS grants and contracts. In FY 1997, HHS A/P totaled \$52,387,054 plus the related indirect costs (about \$33 million). We compared the date the University posted the expenditure to the cash disbursements report to the date the bank cleared the check. We also compared the date the University received Federal funds to the date the bank cleared the check.

Relative to payroll, we did not compare the date payroll transactions were posted to the cash disbursements report to the date the bank cleared the checks because a significant amount was

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<sup>1</sup>Check amounts include non-HHS A/P transactions.

direct deposit. In FY 1997, payroll totaled \$46.18 1,301 plus the related indirect costs (about \$29 million) on HHS grants and contracts.

We conducted our audit in accordance with generally accepted government auditing standards. We performed our field work at the University in Cambridge, Massachusetts from January through March 1998, and discussed the results of our audit with a University official on July 14, 1998. The University's comments to our draft report issued on June 4, 1998 are summarized on page seven and their written comments are appended to this report in their entirety. (See Appendix.)

### FINDING AND RECOMMENDATION

The University limits its cash requests for HHS funds to the amount of issued checks at the time of the cash requests. While the University posts issued checks to the cash disbursements report daily, the University averaged about five requests for HHS cash per month (every six days). We reviewed 100 Accounts Payable (A/P) checks and found that checks did not clear the bank for about 15 days after the transactions were posted to the cash disbursements report. We found that 40 of the 100 checks cleared before the request for Federal funds and for the remaining 60 checks the University received Federal funds an average of 11 days prior to the check clearing. Thus, the University earned interest on a portion of HHS funds (depending upon the date HHS funds are received and the actual date checks cleared the bank). However, the University did not remit the interest earned, as required, to the Federal government. This occurred because the University, in determining whether it earned interest, utilized the cash disbursements report, which includes disbursements as of the date the University issued checks, rather than using the date the bank cleared the checks. As such, the University earned interest on the uncashed checks and related indirect costs but retained the interest income for its own use rather than submit the interest earned to PMS.

#### **Criteria - Relevant Sections of Office of Management and Budget Circular A-1 10**

The OMB Circular A-1 10 provides:

"Recipients' financial management systems shall provide for . . . Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient . . ." (OMB Circular A-110, Subpart C Section 21 (b)(5))

". . . The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs." (OMB Circular A-110 Subpart C Section 22 (b))

"Recipients shall maintain advances of Federal funds in interest bearing accounts . . . " (OMB Circular A-110 Subpart C Section 22 (k))

". . . interest earned on Federal advances deposited in interest bearing accounts shall be remitted annually to Department of Health and Human Services, Payment Management System, Rockville, MD 20852. Interest amounts up to \$250 per year may be retained by the recipient for administrative expense . . . ." (OMB Circular A-110 Subpart C Section 22 (l))

**Condition - The University Did Not Remit Interest Earned on Advances of Federal Funds to the PMS**

The University drew Federal funds based on transactions posted to the cash disbursements report (checks issued). However, we found that A/P checks on the average did not clear the bank until about 15 days after issuance. Thus, the University earned interest on those checks that had not cleared the bank. Further, during the period of our review, the University did not remit interest to the PMS.

From October 1996 to September 1997, the University averaged about five requests for HHS cash per month. However, the University did not have a consistent policy on the frequency of HHS cash requests. For example, University personnel requested HHS cash nine times in October 1996 but only twice in July 1997. University personnel base their request for HHS cash on University cash disbursement reports which records transactions based on the check issue date. The University generally receives Federal funds through electronic fund transfers within one work day of their request from the Division of Payment Management (DPM), Payment Management System (PMS). The University initially deposits drawdowns in a non-interest bearing account, but subsequently (within 24 hours) transfers the funds to an interest-bearing account.

In FY 1997, more than 95 percent of the University's expenditures on HHS grants and contracts were for A/P (30.03 percent), payroll (26.47 percent), and indirect costs (38.93 percent). Because a significant amount of payroll is electronic funds transfer, we limited our tests to A/P transactions to determine when the bank actually cleared the checks. We judgmentally selected 100 A/P checks amounting to \$2,646,694 (includes 150 HHS A/P transactions totaling \$1,907,487) posted to the September 1997 cash disbursement report. Based on our review of the 100 checks, we found that the bank actually cleared these checks an average of 15.3 1 days after the University posted the expense to the cash disbursements report. The following table summarizes the number of days between the time the University posts an A/P transaction and the time the bank cleared the checks:

<b>Days Between Cash Disbursement Report and Check Clearing</b>	<b>Number of HHS Transactions Reviewed</b>	<b>HHS Transaction Amount Reviewed</b>	<b>Number of Checks</b>	<b>Check Amount</b>
0 - 5 Days	5	\$63,44	1	5 \$288,271
6 - 10 Days	55	\$815,623	43	\$912,111
11 - 15 Days	32	\$337,822	27	\$665,03 1
16 - 20 Days	37	\$443,757	10	\$501,633
21 - 25 Days	10	\$149,702	7	\$152,490
26 - 30 Days	1	\$586	1	\$586
31 - 60 Days	3	\$22,895	3	\$42,587
> 60 Days	<u>7</u>	\$73.66	1	<u>4</u> \$83.985
<b>Total</b>	<b>150</b>	<b>\$1,907,487</b>	<b>100</b>	<b>\$2,646,694</b>

University personnel performed a quarterly interest calculation on HHS grants and contracts. They calculated the weekly cash balance based on Federal cash drawdowns received and transactions posted to the cash disbursements report. The University determined that from October 1996 through September 1997 they did not earn interest on Federal funds. Thus, the University did not remit interest to the PMS.

**Cause - How the University Calculated Interest**

The University did not remit interest earned to PMS because University personnel utilized cash disbursements reports (check issuing dates) in calculating interest earned rather than the date the bank cleared the checks. Since the University did not base interest calculations on actual disbursements from the bank account, interest calculations were incorrect. While OMB Circular A- 110 allows cash requests to be based on issuance of checks, the University actually earned interest on cash until the date the bank cleared the checks. Therefore, the University’s calculation of interest earned should utilize the date the bank clears the checks.

**Effect - Interest Not Remitted to PMS**

Because the University did not appropriately identify interest earned on HHS funds, such interest earned was available for University purposes. We chose not to calculate interest earned on Federal funds as it would have required either a 100 percent review or statistical sample of cleared checks. However, we reviewed 150 September 1997 transactions and determined the University received HHS funds for these transactions on September 30, 1997 and October 16, 1997. We compared the date the University received HHS funds to the date the bank cleared the checks for these 150 transactions. Based on our review of the 100 checks, we found

that the University earned interest on Federal funds. Specifically, they received Federal funds of \$604,283 for 72 A/P transactions (60 checks) an average of 11 days prior to the checks clearing. The University earned interest from the time they deposited Federal funds until the time the bank disbursed funds. The following table summarizes the number of days between the time the University received Federal funds and the time the bank cleared the checks:

<b>Days Between Receiving Federal Funds and Check Clearing</b>	<b>Number of HHS Transactions Reviewed</b>	<b>HHS Transaction Amount Reviewed</b>	<b>Number of Checks</b>	<b>Check Amount</b>
0 - 5 Days	30	\$245,966	26	\$264,167
6 - 10 Days	24	\$132,558	22	\$171,855
11- 15 Days	1	\$15,000	1	\$15,000
16 - 20 Days	7	\$118,255	4	\$137,947
21 - 25 Days	1	\$586	1	\$586
26 - 30 Days	0	\$0	0	\$0
31 - 60 Days	7	\$78,388	4	\$78,388
> 60 Days	2	\$13,530	2	\$23,854
<b>Total</b>	<b>72</b>	<b>\$604,283</b>	<b>60</b>	<b>\$691,797</b>

For the remaining 78 September 1997 transactions, the bank cleared the University's 40 checks for \$1,954,897 (\$1.3 million for HHS transactions tested) before the University received HHS funds.

**RECOMMENDATION**

We recommend that the University calculate interest earned using a method which considers the date that the bank clears checks rather than the date the University issues checks, and as appropriate, remit interest earned, which exceeds \$250, to PMS.

**AUDITEE COMMENTS**

University officials recognize that the reported conditions support our recommendation. Further, they believe that initiatives currently underway will directly address the reported conditions and that significant improvements will be made over the next year to the University's cash management processes that will preclude the necessity of performing an interest calculation for letter of credit. In its response to the draft report, the University describes three of its initiatives. (See Appendix for the University's full response.)

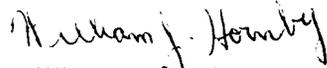
**OAS RESPONSE**

We are pleased that the University is in the process of improving its cash management system, and we agree that once fully operational, the initiatives should eliminate interest earned on Federal funds. However, until those initiatives are fully operational, it is the University's responsibility to calculate interest earned on Federal funds and remit interest earned, which exceeds \$250, to PMS.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Please refer to Common Identification Number A-O 1-98-04000 in all correspondence to this report.

Sincerely yours,



William J. Hornby  
Regional Inspector General  
for Audit Services

Appendix - as stated

**Direct Reply to HHS Action Official**

Chief, Accounting and Reports Branch  
Division of Payment Management, ORM/OM/PHS  
U.S. Department of Health and Human Services  
P.O. Box 6021  
Rockville, Maryland 20852

## **Appendix**

H A R V A R D U N I V E R S I T Y

ELIZABETH C. HUIDEKOPER  
VICE PRESIDENT FOR FINANCE

MASSACHUSETTS HALL  
CAMBRIDGE, MASSACHUSETTS 02138

August 21, 1998

Mr. Donald Czyzewski, Audit Manager  
Department of Health **and** Human Services  
Office of Inspector General  
John F. Kennedy Federal Building  
Boston, MA 02203

Re: Audit of the Cash Management System-Harvard University  
Common Identification Number A-O 1-98-04000

Dear Mr. ~~Czyzewski~~ .

We have reviewed the draft report on your audit of the cash management system dated June 4, 1998 at Harvard University and appreciate the opportunity to provide you with our observations **and** comments.

We recognize that your report illustrates certain conditions inherent in our cash management system that support your recommendations. As we discussed in our meeting on July 31, 1998, there are numerous initiatives underway at the University that will directly address these conditions. As these initiatives continue to develop and roll out over the next year, we believe that significant improvements will be made to the cash management processes that will **preclude** the necessity of performing an interest calculation for letter of credit accounts. These initiatives are outlined below.

First, the cash management system for letter of credit draws will undergo process redesign as a part of Project ADAPT, our University-wide new financial systems implementation. As the first phase of ADAPT is scheduled for deployment on July 1, 1999, we are currently in the process of reconstructing our existing vendor file in order to **accommodate** the new systems. Once the new systems are implemented, we will have the ability to pay vendors via electronic **funds** transfer, thus eliminating the writing and processing of paper checks. Further, payments can **be** initiated on scheduled dates, which are a result of data derived from current invoice processing activity. Thus, cash draws for reimbursement can be timed with EFT payments to vendors in order to minimize the time that government funds remain idle in Harvard's bank accounts. We anticipate implementation of this system in the second half of calendar year 1999. Our preliminary work in this area includes the identification of the top two hundred vendors who are paid

from sponsored funds, as well as a draft vendor registration form to be used in gathering and setting up account information for selected vendors. In effect, the lag in vendor specific deposits that you identified in your audit will essentially be eliminated.

Second, Harvard has taken a proactive role in designing and implementing systems that reduce the volume of routine payments ordinarily processed through our accounts payable system. We have recently implemented a purchasing card program that is estimated to reduce routine accounts payable volume by 20-40% annually.

Finally, we are in the process of implementing the new "STAR" (System for Travel and Reimbursement) system for employee reimbursements for travel-related expenditures. Under STAR, reimbursement occurs via ACH/direct deposit, representing yet another system we have developed recently in efforts to further decrease the annual volume of checks written through accounts payable.

As a result of the systems projects outlined above, we feel that the collective improvements in our cash management system that have and will be realized are sufficient to preclude an interest calculation based on the conditions determined through your recent audit. We hope you agree. Please don't hesitate to contact us if we can help you to more fully understand our plans.

Regards,



Elizabeth C. Luidekoper  
Vice President for Finance

cc: Kern Eaker  
Elizabeth Mora