

Appendix A: Monitoring Procedures for Restricted Funds

Objectives: The University has a stewardship obligation to ensure that it spends restricted funds in accordance with terms. The purpose of restricted fund monitoring procedures is to provide the University and tub financial offices with a level of assurance that funds are being spent in accordance with donor terms. As the number and complexity of restricted funds varies by tub, monitoring procedures may be tailored to meet each tub's needs. Monitoring at tubs with a decentralized approval model must include both analytical review and transaction sampling; monitoring at schools with a centralized approval model must include analytical review; transaction sampling is not required if the central approval process includes review of fund terms. However, transaction sampling must be included in a school's monitoring program if there are gaps in the centralized approval structure. The following guidance suggests specific examples of analytical monitoring procedures and monitoring through sample selection. Some tubs will choose to perform all of the procedures listed, others may only chose to perform a subset, still others may choose to use additional procedures not listed.

I. Analytic monitoring procedures

Tub financial offices are required to perform periodic analytical reviews of restricted funds to ensure compliance with this policy and to identify charges that may require further investigation. This analytical review may include the following:

1. Review of **unusual** charges, i.e., large entertainment expenses, first class travel, or any other charges that appear to be inconsistent with University policy;
2. Review of activity in transfer object codes for **inter-fund** transfers of income or expense; and
3. Review of funds with net credit amounts posted to expense object codes.

Tubs may elect to pay particular attention to funds with complex terms, or funds subject to enhanced reporting. In addition, as is regular practice, tubs should review funds with debit (deficit) balances to understand why funds have been overspent. Conversely, tubs should also review funds that have large unspent balances. Finally, reviewers should consider the type of restricted fund (scholarship, professorship, etc.) and ensure that the fund's activity is consistent with that purpose.

By asking the questions identified in the analytic procedures, tubs may be able to identify errors and/or units that require additional training.

II. Monitoring through sample selection

Given that individual donor funds can be unique, some tubs may find it challenging to gain sufficient assurance through the analytic procedures outlined above. In these situations, tubs may elect to select a sample of transactions posted to restricted funds to obtain backup and ensure that the transaction was appropriately charged to the fund. **Tubs with decentralized approval models are required to monitor through sample selection.**

The types of support that tubs may request while performing sample transaction testing are listed in Section III below. This information is intended to provide guidance as tubs consider what to request from a department in the course of regular tub monitoring. A tub may request more or less support from departments based on the objectives of its monitoring sample, circumstances, or policies and procedures in that tub. In all cases, it is important to establish the causal/beneficial relationship between the expenses and the terms of the fund.

Samples can be selected using many methods. Samples may be chosen based on the results of analytical procedures, random sampling or targeted sampling. Targeted sampling is the selection of a sample based on some factor, e.g., funds subject to enhanced reporting, funds that have complex terms, departments that have had errors in the past, departments with indirect oversight from central finance, etc. Sample sizes will differ based on how

much assurance a tub wants to obtain. Some tubs may find that choosing five transactions a quarter may be sufficient, while others may want to choose 40 annually. The sample size, method and frequency of sampling depend on circumstances in each tub. For questions and further guidance regarding sample sizes, please contact Risk Management and Audit Services or the Office of the Controller.

III. Sample Documentation Guidelines

RMAS/PwC Audit

Upon audit, PwC or RMAS may request a sample of restricted fund spending transactions for testing. Please note that PwC or RMAS testing may be more detailed than routine tub analysis; PwC or RMAS's sample size is typically quite limited but with a deeply detailed review on each item selected. While tubs are required to regularly monitor compliance with this policy, PwC or RMAS test procedures are intended to provide reasonable assurance that all significant controls necessary to achieve a business objective (e.g., spending in accordance with donor wishes) are in place and working effectively at the University level.

Items to consider about when requesting support for a transaction selected in III:

1. **General:**
 - a. For each fund, obtain a copy of the original grant/fund documentation as well as the summary sheet from Advance.
 - b. For each transaction, obtain a brief explanation of the causal/beneficial relationship between the expenses and the terms of the fund.
2. **Salary charges:** obtain and review the following to determine if salary charges are appropriate and within the fund terms:
 - a. Payroll Documents for full-time employees (bi-weekly) and temporary employees (weekly). Additionally, review any time and effort information for each employee (if applicable).
 - b. A brief explanation of the work the individual is doing on the project and the causal/beneficial relationship.
 - c. For hourly individuals, copies of authorized timesheets which support the hours charged per the payroll document
3. **Travel charges:** obtain and review the following to determine if travel charges are appropriate and within the fund terms:
 - a. Expense reports, journal vouchers
 - b. Supporting documentation for all expenses including copies of original receipts [e.g., passenger receipt for airfare (itinerary from travel agent is not sufficient), hotel bill, restaurant receipts, taxi receipts, etc.]
 - c. Documentation proving purpose of trip (e.g., meeting agendas, conference programs, etc.)
 - d. Prior approval from sponsoring agency, if applicable
 - e. Documentation supporting booking outside Harvard travel policy
 - f. A brief explanation of the causal/beneficial relationship between the expenses and the terms of the fund.
4. **Consultant/purchased services:** obtain and review the following to determine if consulting/purchased service charges are appropriate and within the fund terms:
 - a. Consultant agreement
 - b. Invoices and journal vouchers
 - c. A brief explanation of the causal/beneficial relationship between the expenses and the terms of the fund.

5. **Equipment purchases:** obtain and review the following to determine if equipment purchases are appropriate and within the fund terms:
 - a. Purchase requisitions, purchase orders
 - b. Receiving documents
 - c. A brief explanation of the causal/beneficial relationship between the expenses and the terms of the fund.

6. **Other direct costs:** obtain and review the following to determine if other direct costs are appropriate and within the fund terms:
 - a. Purchase requisitions, purchase orders, receiving documents
 - b. Invoices and journal vouchers
 - c. A brief explanation of the causal/beneficial relationship between the expenses and the terms of the fund.

7. **Scholarships, fellowships and training:** obtain and review the following to determine if scholarships, fellowships, and training charges are appropriate and within the fund terms:
 - a. Journal vouchers/Invoices
 - b. Payback agreements; tuition schedules for students authorized by the department; "Statement of Appointment of Trainee."
 - c. A brief explanation of the causal/beneficial relationship between the expenses and the terms of the fund.