



## Restricted Fund Spending Compliance

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### Policy Statement

All Harvard University schools and units are required to establish sound procedures to manage spending on donor restricted funds to comply with terms and conditions. This policy establishes key controls that each school must include in its local procedures.

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### Reason for Policy

The University has a stewardship obligation to ensure that restricted funds are spent in accordance with donor terms.

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### Who Must Comply

All Harvard University schools, tubs, local units, Affiliate Institutions, Allied Institutions and University-wide Initiatives must comply.

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### Procedures

1. **Certify in writing annually for existing funds.** Every year, all Harvard University schools/units will require staff who spend against donor-restricted funds (or managers who oversee such staff) to certify in writing that they are familiar with and will abide by spending terms on those funds.
2. **Define the format of certification.**
  - A. Due to differences in school size, operations, and number of restricted funds, the form of this certification, the time of year that it is completed, and the organizational level at which it is completed may vary by school.
  - B. See Appendix B, Sample Annual Restricted Fund Certification template
3. **Certify in writing for new funds and changes in fund terms.** Managers and/or staff who spend against donor-restricted funds must make the same certification upon creation of a new restricted fund or upon a change of spending terms on an existing restricted fund.
4. **Monitor charges to restricted funds.** Schools are required to periodically monitor charges against restricted funds to test that those expenditures are in accordance with terms.
  - A. Monitoring at schools with a decentralized approval model must include both analytical review and transaction sampling.
  - B. 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, including but not limited to:
    - a. Central approval does not include review of fund terms.
    - b. Central approval excludes certain departments, centers or PIs.
    - c. Central approval is required only above a dollar threshold.
5. **Receive updated fund terms annually.** To ensure that administrators have access to fund terms, each June the Recording Secretary's Office will distribute copies of terms on restricted funds to each school or unit that holds these funds.



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## Responsibilities and Contacts

**Tub financial deans** or equivalent tub financial officers are responsible for ensuring that local units abide by this policy and the accompanying procedures.

**Office of the Controller (OC)**, within Financial Administration, is responsible for maintaining the University's Restricted Fund Spending Compliance policy. Tub finance offices may contact OC with questions regarding this policy. **Contact (617) 495-8032**

**Recording Secretary's Office (RSO)** provides copies of fund terms to tubs and also advises tubs on interpretation of donor terms. **Contact: (617) 495-1750**

**Risk Management and Audit Services** is responsible for periodically auditing tub compliance with this policy. **Contact: [http://vpf-web.harvard.edu/rmas/contact\\_us.html](http://vpf-web.harvard.edu/rmas/contact_us.html)**

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## Definitions

**Restricted fund:** a voluntary donation (either for current use or endowment) that requires funds to be used for a specific purpose; includes construction funds.

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## Related Resources

Internal Transfers Policy: [http://hwpi.harvard.edu/fad\\_policies/pages/internal-transfers](http://hwpi.harvard.edu/fad_policies/pages/internal-transfers)

Expense Recognition Policy: [http://hwpi.harvard.edu/fad\\_policies/pages/expense-recognition](http://hwpi.harvard.edu/fad_policies/pages/expense-recognition)

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## Revision History

6/30/2013: added more detailed required monitoring procedures; added sample Annual Attestation Form; and updated format.

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## Appendices

**Appendix A:** Monitoring Procedures for Restricted Funds

**Appendix B:** Sample Annual Attestation Form

## **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.

## Appendix B: Sample Annual Restricted Fund Certification

### Annual Restricted Fund Certification

[school name]

Harvard University

For the period ended \_\_\_\_\_, 20\_\_, I certify that:

- I have read and understand the donor terms for all restricted funds for which I have transaction or spending authority.
- The terms have been communicated to any others in my department who transact against the restricted funds.
- All transactions I have performed or have authorized others to perform have been in accordance with the terms of the funds.

Signature: \_\_\_\_\_

Printed name: \_\_\_\_\_