

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF COST SHARING AND
COST TRANSFERS AT THE
UNIVERSITY OF ROCHESTER
FOR THE PERIOD
JULY 1, 2002 TO JUNE 30, 2003**



**SEPTEMBER 2005
A-02-05-02000**

Office of Inspector General

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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. Authorized officials of the HHS divisions will make final determination on these matters.





DEPARTMENT OF HEALTH & HUMAN SERVICES OFFICE OF INSPECTOR GENERAL

Office of Audit Services
Region II
Jacob K. Javits Federal Building
New York, New York 10278

September 21, 2005

Report Number: A-02-05-02000

Ronald J. Paprocki
Senior Vice President for Administration and Finance and CFO
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P.O. Box 270023
Rochester, NY 14627

Dear Mr. Paprocki:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' final report entitled "Review of Cost Sharing and Cost Transfers at The University of Rochester for the period July 1, 2002 to June 30, 2003." Should you have any questions or comments concerning the matters commented on in this report, please direct them to the HHS official named below.

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 issued to the department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the department chooses to exercise. (See 45 CFR Part 5)

Should you have any questions or comments concerning the matters commented on in this report, please do not hesitate to call me at 212-264-4620 or John J. Madigan, Audit Manager at 518-437-9390, extension 224, or e-mail at John.Madigan@oig.hhs.gov. To facilitate identification, please refer to report number A-02-05-02000 in all correspondence.

Sincerely yours,


Timothy J. Horgan
Regional Inspector General
for Audit Services

Enclosure - as stated

Direct Reply to HHS Action Official

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EXECUTIVE SUMMARY

BACKGROUND

The University of Rochester (the University) is ranked among the top colleges and universities nationwide in Federally financed science, engineering, medical, and other research. The University received \$308 million in sponsored program awards for fiscal year 2003¹, of which \$146 million was received from the National Institutes of Health (NIH). NIH is an agency of the Department of Health and Human Services that provides grant related funding for Federally sponsored health research.

The University may be required to share in the cost of Federally sponsored research projects in accordance with laws, regulations, or administrative decisions of NIH, which is referred to as mandatory cost sharing. The University may also voluntarily commit to share in the cost of Federally sponsored research projects, which is referred to as voluntary committed cost sharing. Both mandatory and voluntary committed cost sharing must be provided and documented in accordance with Office of Management and Budget (OMB) Circulars No. A-21 and A-110.

In addition, Congress legislatively capped the amount of Federal funding colleges and universities may receive for salary charged to an NIH grant. Consequently, grantees are required to remove expenditures for salary above this cap from grant applications and claims for Federal reimbursement. In addition, salary paid by the University that exceeds the cap must be included in the calculation of the Facilities and Administrative (F&A) cost rate. The F&A cost rate is used to reimburse the University for indirect costs on grants and contracts.

Occasionally it is necessary for colleges or universities to transfer costs between grants to correct bookkeeping and accounting errors. However, cost transfers are not allowed for the purpose of shifting expenses between grants, to make up for funding shortfalls. Under the provisions of OMB Circular No. A-110, colleges and universities are required to develop written procedures and controls to ensure that each cost transfer is properly documented. In addition, OMB Circular No. A-21 requires that costs be allowable and allocable to a grant. The NIH Grants Policy Statement requires that cost transfers be supported by documentation that fully explains the transfer. The University's policies and procedures require cost transfers to be allowable under OMB Circular No. A-21, directly benefit the project transferred to, include adequate detail of the specific costs to justify the transfer, and be approved by the appropriate official.

OBJECTIVES

Our objectives were to determine whether the University:

1. provided cost sharing on NIH projects that was allowable, reasonable and documented in accordance with OMB Circulars No. A-21 and A-110,

¹ The University's fiscal year is based on the academic calendar; therefore, fiscal year 2003 covered the period July 1, 2002 to June 30, 2003.

2. removed salary above the cap from grant applications and claims for Federal reimbursement for NIH projects, and included salary above the cap in the calculation of the F&A cost rate,
3. developed and implemented written procedures and controls to document cost transfers in accordance with OMB Circular No. A-110, and
4. sufficiently justified and supported cost transfers to NIH projects in accordance with OMB Circulars No. A-21 and A-110, as well as the NIH Grant's Policy Statement and their own policies and procedures.

RESULTS OF AUDIT

We determined that the University has procedures in place to document cost sharing. However, NIH did not require the University to provide mandatory cost sharing on the NIH grants that we reviewed. Moreover, the University did not voluntarily commit to cost share on these grants. Consequently, while the written cost sharing procedures put in place by the University appeared to meet the requirements set forth in OMB Circulars No. A-21 and A-110, we were unable to assess the adequacy of these procedures.

We determined that the University removed salary above the cap when submitting grant applications and claims for Federal reimbursement for NIH projects. We also found that the University properly included salary above the cap in the calculation of the F&A cost rate.

The University developed and implemented written cost transfer procedures and controls, which we found to be in accordance with OMB Circular No. A-110. Lastly, we found that cost transfers were sufficiently justified and supported in accordance with OMB Circulars No. A-21 and A-110, as well as the NIH Grant's Policy Statement and the University's own policies and procedures.

AUDITEE COMMENTS

The auditee reviewed a working copy of the final report and found it to be accurate and complete.

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INTRODUCTION

BACKGROUND

The University of Rochester

The University of Rochester (the University) is ranked among the top colleges and universities nationwide in Federally financed science, engineering, medical, and other research. The University received \$308 million in sponsored program awards for fiscal year 2003, of which \$146 million was received from the National Institutes of Health (NIH). NIH is an agency of the Department of Health and Human Services that provides funding for Federally sponsored health research.

A grant is a mechanism used by NIH to provide funding to the University to carry out an approved project. In order to receive funding through a grant, the University must submit an application to NIH. Information provided on the application typically includes a project description, budget, and budget justification. Once a grant application has been reviewed and approved for funding, the University will receive a Notice of Grant Award that notifies the University that an award has been made. The Notice of Grant Award includes such information as the approved budget period start and end dates and the amount of funds awarded. The budget period is the interval of time into which a project has been divided for funding purposes. The University is required to submit reports of expenditures to NIH as documentation of the financial status of grants. Financial or expenditure reporting is accomplished using the Financial Status Report (FSR).

Cost Sharing

The University may be required to share in the cost of Federally sponsored research projects in accordance with laws, regulations, or administrative decisions of NIH, which is referred to as mandatory cost sharing. The University may also voluntarily commit to share in the cost of Federally sponsored research projects, which is referred to as voluntary committed cost sharing. Both mandatory and voluntary committed cost sharing must be provided and documented in accordance with Office of Management and Budget (OMB) Circulars No. A-21 and A-110.

National Institutes of Health Salary Cap

Congress legislatively capped the amount of Federal funding colleges and universities may receive for salary charged to an NIH grant. This salary cap is based on the Federal Executive Pay Scale and is adjusted annually. The salary cap for fiscal year 2003 was \$166,700 for the period July 1, 2002 through December 31, 2002, and \$171,900 for the period January 1, 2003 through June 30, 2003. Grantees are required to remove expenditures for salary above this cap from grant applications and claims for Federal reimbursement. In addition, salary paid by the University that exceeds the cap must be included in the calculation of the Facilities and Administrative (F&A) cost rate. The F&A cost rate is used to reimburse the University for indirect costs on grants and contracts.

Cost Transfers

Cost transfers are necessary to correct many situations, including accounting and bookkeeping errors; salary reallocations from a change in employee's time spent on a grant; and cost sharing transactions. Cost transfers are not allowed for the purpose of shifting expenses between grants, to make up for funding shortfalls. Each cost transfer must be allowable under Federal requirements and must be justified and supported.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether the University:

1. provided cost sharing on NIH projects that was allowable, reasonable and documented in accordance with OMB Circulars No. A-21 and A-110,
2. removed salary above the cap from grant applications and claims for Federal reimbursement for NIH projects, and included salary above the cap in the calculation of the F&A cost rate,
3. developed and implemented written procedures and controls to document cost transfers in accordance with OMB Circular No. A-110, and
4. sufficiently justified and supported cost transfers to NIH projects in accordance with OMB Circulars No. A-21 and A-110, as well as the NIH Grant's Policy Statement and their own policies and procedures.

Scope

Our audit was limited to a universe of 133 NIH grants that had a budget period end date between July 1, 2002 and June 30, 2003 and had an FSR filed. The expenditures for these grants totaled \$76,418,926.

We did not review the overall internal control structure of the University, because the objectives of our audit were accomplished through substantive testing. However, we documented pertinent controls related to cost sharing, salary above the cap, and cost transfers.

Methodology

To accomplish our objectives we:

- ✓ reviewed Federal laws and regulations pertaining to cost sharing, salary above the cap, and cost transfers,
- ✓ reviewed NIH and the University's policies and procedures regarding cost sharing, salary above the cap, and cost transfers,
- ✓ obtained a universe of 133 NIH grants, with expenditures totaling \$76,418,926, that had a budget period end date between July 1, 2002 and June 30, 2003 and had an FSR filed,
- ✓ tested the universe for completeness and accuracy,
- ✓ judgmentally selected 20 grants from the universe and reviewed the Notice of Grant Award to determine if the University was required, or voluntarily committed, to provide cost sharing,
- ✓ judgmentally selected 13 grants from the universe which were identified as having salary above the cap and determined if the University removed salary above the cap from grant applications and claims for Federal reimbursement,
- ✓ reviewed the calculation of the F&A rate that was in effect during fiscal year 2003 to determine if the University included salary above the cap in the calculation,
- ✓ identified 8,660 cost transfers from the universe of 133 NIH grants,
 - tested the cost transfers for completeness and accuracy,
 - eliminated 6,593 cost transfers that were either (1) less than \$500 in value (2) transferred to non Federal accounts (3) reviewed under the cost sharing portion of this audit,
 - used simple random sampling techniques to select a sample of 30 cost transfers from the universe of the remaining 2,067 cost transfers with a value of \$6,857,355 to determine if the transfers were justified and supported.²

Our audit was performed in accordance with generally accepted government auditing standards. We performed fieldwork at the University during November 2004.

² These tests constituted discovery sampling, which is used to verify that the rate of incidence is near 100 percent.

RESULTS OF AUDIT

We determined that the University has procedures in place to document cost sharing. However, NIH did not require the University to provide mandatory cost sharing on the NIH grants that we reviewed. Moreover, the University did not voluntarily commit to cost share on these grants. Consequently, while the written cost sharing procedures put in place by the University appeared to meet the requirements set forth in OMB Circulars No. A-21 and A-110, we were unable to assess the adequacy of these procedures.

We determined that the University removed salary above the cap when submitting grant applications and claims for Federal reimbursement for NIH projects. We also found that the University properly included salary above the cap in the calculation of the F&A cost rate.

The University developed and implemented written cost transfer procedures and controls, which we found to be in accordance with OMB Circular No. A-110. Lastly, we found that cost transfers were sufficiently justified and supported in accordance with OMB Circulars No. A-21 and A-110, as well as the NIH Grant's Policy Statement and the University's own policies and procedures.

COST SHARING

Cost Sharing On National Institutes of Health Grants May Be Required

Cost Sharing may be required by law, regulation, or administrative decision of NIH. The University may also voluntarily commit to share in the cost of Federally sponsored research projects. The approved budget for a grant is specified in the Notice of Grant Award, and consists of Federal grant funds and cost sharing.

Costs used to satisfy cost sharing requirements are subject to the same policies governing allowability as other costs under the approved budget. All contributions will be accepted as part of the recipient's cost sharing when the contributions meet all the requirements specified in OMB Circular No. A-110.

The University Was Not Required to Cost Share On National Institutes of Health Grants

University officials advised us that they have procedures to document cost sharing, however, for the universe of 133 NIH grants there was no mandatory or voluntary committed cost sharing. We reviewed 20 grants, with expenditures totaling \$19,976,723, which represents 26% of the total expenditures in the universe. We verified that there was no mandatory or voluntary committed cost sharing on these grants. Consequently, while the written cost sharing procedures put in place by the University appeared to meet the requirements set forth in OMB Circulars No. A-21 and A-110, we were unable to assess the adequacy of these procedures.

NATIONAL INSTITUTES OF HEALTH SALARY CAP

Federal Funding for Salaries Charged to a National Institutes of Health Grant Is Capped

Congress legislatively capped the amount of Federal funding colleges and universities may receive for salary charged to an NIH grant. Consequently, grantees are required to remove expenditures for salary above this cap from grant applications and claims for Federal reimbursement. In addition, salary paid by the University that exceeds the cap must be included in the calculation of the F&A cost rate.

The University Properly Capped Salaries Charged to National Institutes of Health Grants

In the universe of 133 NIH grants, the University identified 53 grants that had salary above the cap expenses totaling \$862,076. We reviewed 13 of these grants, which had salary above the cap expenses totaling \$658,322, or 76 percent of the total salary above the cap expenses in the universe. For the 13 grants reviewed, we determined that the University removed salary above the cap when submitting grant applications. We also determined for the 13 grants reviewed that the University removed salary above the cap when claiming Federal reimbursement because the expenses were properly transferred off the Federal grants to departmental accounts. In addition, we verified that the University properly included all transfers of salary above the cap in the calculation of the F&A cost rate in effect during fiscal year 2003.

COST TRANSFERS

Universities are Required to Properly Account for Cost Transfers

There are several Federal requirements that regulate the accounting of cost transfers:

- OMB Circular No. A-110, Subpart C, Section 21 requires that the institution's financial management system provide written procedures and controls to ensure that funds are properly accounted for.
- OMB Circular No. A-21 Section C.4 requires that costs be allocable to a particular grant or project.
- NIH Grants Policy Statement Part II, Subpart A: requires that cost transfers be supported by documentation that fully explains the transfer.

In addition, the University's policies and procedures require cost transfers to be allowable under OMB Circular No. A-21, directly benefit the project transferred to, include adequate detail of the specific costs to justify the transfer, and be approved by the appropriate official.

The University Developed Procedures and Controls to Account for Cost Transfers

The University developed and implemented written cost transfer procedures and controls, which we found to be in accordance with OMB Circular No. A-110. These written procedures were designed to ensure that the transfer of costs between sponsored research accounts are justified, documented, and approved by an appropriate official.

The University Properly Accounted for Cost Transfers

We found that the 30 statistically selected cost transfer sample items were sufficiently justified and supported in accordance with OMB Circulars No. A-21 and A-110, as well as the NIH Grant's Policy Statement and the University's own policies and procedures. Therefore, we conclude that all 2,067 cost transfers totaling \$6,857,355 were allowable, allocable, and reasonable.

AUDITEE COMMENTS

The auditee reviewed a working copy of the final report and found it to be accurate and complete.

ACKNOWLEDGMENTS

This report was prepared under the direction of Timothy J. Horgan, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

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For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.