



SEP 28 2006

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

Report Number: A-01-06-01500

Mr. Steven Singer  
Comptroller  
Office of the Comptroller  
Boston University  
881 Commonwealth Avenue, 4<sup>th</sup> floor  
Boston, MA 02215

Dear Mr. Singer:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Subaward Costs Claimed by Boston University on NIH Grant Number 5 U01 HL066582-04 and Grant Number 3 U01 HL066582-04S1 From August 1, 2003, Through July 31, 2005." A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. 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.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-01-06-01500 in all correspondence.

Sincerely yours,

A handwritten signature in black ink that reads "Michael J. Armstrong".

Michael J. Armstrong  
Regional Inspector General  
for Audit Services

Enclosures – as stated

**Direct Reply to HHS Action Official:**

Mr. Michael D. Payne, Director  
Division of Financial Advisory Services  
OAMP, National Institutes of Health  
6100 Executive Blvd.  
Room 6B05, MSC 7540  
Bethesda, Maryland 20892-7540

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF SUBAWARD COSTS  
CLAIMED BY BOSTON  
UNIVERSITY ON NIH GRANT  
NUMBER 5 U01 HL066582-04  
AND 3 U01 HL066582-04S1  
FROM AUGUST 1, 2003,  
THROUGH JULY 31, 2005**



Daniel R. Levinson  
Inspector General

September 2006  
A-01-06-01500

# ***Office of Inspector General***

<http://oig.hhs.gov>

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# *Notices*

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



## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Boston University (the University) is a private, not-for-profit institution of higher education in Boston, Massachusetts. The medical school is a major research institution, ranking 13<sup>th</sup> among U.S. medical schools in total funding from the National Institutes of Health (NIH). The University has more than 600 funded research programs and more than 1,000 active clinical trials.

NIH's National Heart, Lung, and Blood Institute awarded grant number 5 U01 HL066582-04 and grant number 3 U01 HL066582-04S1, entitled "Genomics of Cardiovascular Development, Adaptation and Remodeling," to the prime grantee, Harvard University Medical School, for the period August 1, 2003, through July 31, 2005. Of the total award of \$4.5 million, \$247,558 was for a subaward to the University, entitled, "Functional Genomics of the Cardiovascular System: Component 7, Framingham Heart Study." Our review covered the last subaward budget period, from August 1, 2003, through July 31, 2005. The University's final invoice, dated December 8, 2005, totaled \$247,381.

### **OBJECTIVE**

Our objective was to determine whether the University claimed allowable costs under the terms and conditions of the subaward and applicable Federal regulations.

### **SUMMARY OF FINDINGS**

From August 1, 2003, through July 31, 2005, the University claimed \$11,234 in costs that did not comply with Federal regulations and the terms of the subaward. The overstated amount represents unallowable salary cost transfers and related fringe benefits and indirect costs. Although the University had established procedures for work on sponsored research projects, these procedures were not always followed.

In addition, the University did not submit its final invoice to the prime grantee within 45 days of the end of the budget period, as subaward terms and conditions require. The University did not have adequate controls to ensure that final invoices were submitted promptly.

### **RECOMMENDATIONS**

We recommend that the University:

- comply with Federal and University requirements to ensure that cost transfers are properly authorized, supported by effort certification reports, adequately explained and documented, and accompanied by an explanation of controls to be implemented or corrective actions taken;
- establish controls to ensure that final invoices are submitted promptly; and

- work with Harvard University Medical School to resolve the \$11,234 (\$7,196 in direct costs + \$4,038 in indirect costs) that Harvard received from NIH for inappropriate cost transfers.

## **BOSTON UNIVERSITY'S COMMENTS**

In its September 19, 2006, comments on our draft report, the University agreed that it did not always adhere to its procedures for cost transfers and concurred with our recommendations to strengthen these procedures. However, the University still believed that all costs claimed were reasonable, allocable, and allowable. The University's comments are included in their entirety in the Appendix.

## **OFFICE OF INSPECTOR GENERAL'S RESPONSE**

The University's response contained additional information relating to the principal investigator's retroactive salary increase of \$450 (and related fringe and indirect costs of \$253). In light of this new information, we have adjusted the amount questioned in this report accordingly. However, the University did not provide sufficient evidence for \$7,196 of the \$7,646 in salary cost transfers that we originally questioned in our draft report. As a result, we maintain that these costs are unallowable.

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## **INTRODUCTION**

### **BACKGROUND**

Boston University (the University) is a private, not-for-profit institution of higher education in Boston, Massachusetts. The medical school is a major research institution, ranking 13<sup>th</sup> among U.S. medical schools in total funding from the National Institutes of Health (NIH). The University has more than 600 funded research programs and more than 1,000 active clinical trials.

NIH's National Heart, Lung, and Blood Institute awarded grant number 5 U01 HL066582-04 and grant number 3 U01 HL066582-04S1, entitled "Genomics of Cardiovascular Development, Adaptation and Remodeling," to the prime grantee, Harvard University Medical School, for the period August 1, 2003, through July 31, 2005. Of the total award of \$4.5 million, \$247,558 was for a subaward to Boston University entitled "Functional Genomics of the Cardiovascular System: Component 7, Framingham Heart Study." Our review covered the last subaward budget period, from August 1, 2003, through July 31, 2005. The University's final invoice, dated December 8, 2005, totaled \$247,381.

### **OBJECTIVE, SCOPE, AND METHODOLOGY**

#### **Objective**

Our objective was to determine whether the University claimed allowable costs under the terms and conditions of the subaward and applicable Federal regulations.

#### **Scope**

Our review covered the period from August 1, 2003, through July 31, 2005. We limited our review of internal controls to the process that the University used to claim subgrant costs for reimbursement.

We performed our fieldwork between March and July 2006 at the University in Boston and at the Framingham Heart Study in Framingham, Massachusetts.

#### **Methodology**

During our review, we:

- reviewed applicable Federal regulations, subaward documents, and University policies and procedures for pertinent terms and conditions;
- obtained detailed ledger transaction listings, labor distribution records, personnel records, and supporting documents to perform tests on costs claimed;
- reconciled costs claimed by the University with accounting records;

- reviewed charges distributed through payroll distribution procedures and reconciled salary and wage charges with supporting records and semi-annual effort certification reports;
- reviewed proposed and actual levels of effort of a key employee for differences; and
- ascertained the appropriateness of fringe benefit and indirect rates that the University used.

We conducted our review in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

From August 1, 2003, through July 31, 2005, the University claimed \$11,234 in costs that did not comply with Federal regulations and the terms of the subaward. The overstated amount represents unallowable salary cost transfers and related fringe benefits and indirect costs. Although the University had established procedures for work on sponsored research projects, these procedures were not always followed.

In addition, the University did not submit its final invoice to the prime grantee within 45 days of the end of the budget period, as subaward terms and conditions require. The University did not have adequate controls to ensure that final invoices were submitted promptly.

## **COST TRANSFER CHARGES**

### **Federal and University Requirements Governing Cost Transfers**

NIH Grants Policy Statement (03/01), part II, subpart A, for cost transfers states:

The transfers must be supported by documentation that fully explains how the error occurred and a certification of the correctness of the new charge by a responsible organizational official of the grantee, consortium participant, or contractor. An explanation merely stating that the transfer was made “to correct error” or “to transfer to correct project” is not sufficient. Transfers of costs from one budget period to the next solely to cover cost overruns are not allowable.

Office of Management and Budget (OMB) Circular A-21, section C.4.b, states:

Any costs allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.

The University Salary Adjustment Policy on Cost Transfers defines cost transfers as “the transfer of expenses to or from grant supported projects to correct errors or to properly distribute expenses . . . .” This policy further states:

Salary cost transfers should be requested within 90 days from the date of the original charge once it has been determined that a clerical or bookkeeping error has occurred or that the salary distribution is inaccurate. Requests for transfers beyond the 90 day window will be reviewed by the Office of Grant and Contract Accounting and require a Principal Investigator’s signature. Such requests are scrutinized for propriety based upon the documentation provided and may be rejected or approved as an exception. The most common exception that will be allowed is sponsor approval accounts with retroactive award dates. Salary transfers made simply to use unexpended funds are not allowed.

The University Salary Adjustment Policy on Cost Transfers also specifies that all transfers must be properly documented and must include the following information: (1) a full explanation as to why the transfer is necessary, (2) the cause of the error, (3) the necessary signatures and an explanation of the reason for the delay in processing if 90 days has elapsed from the date of the original transaction, and (4) an explanation of the controls that will be implemented or the actions that have been taken to ensure the error does not occur again.

In addition, University procedures relating to Effort Certification state, “Salary payments from grants require certification of work performed. If the percentages on the personnel activity report do not reflect the true level of effort, please adjust the percentages and complete a salary adjustment. The University will not accept salary adjustments that will increase the level of effort beyond the level certified on the personnel activity report.”

### Unallowable Cost Transfers

The University transferred \$11,234 in labor and related fringe benefits and indirect costs to this subaward that was not allowable (see Table 1).

**Table 1: Unallowable Salary Cost Transfers**

Source of Labor Transfer	Number	Direct Costs	Fringe & Indirect Costs	Total Direct & Indirect Costs
Other project numbers	2	\$7,196	\$4,038	\$11,234
Retroactive salary increase <sup>1</sup>	1	450	253	703
<b>TOTAL</b>	<b>3</b>	<b>\$7,646</b>	<b>\$4,291</b>	<b>\$11,937</b>

The two unallowable salary cost transfers totaling \$7,196 were for two employees’ salaries that the University had originally charged to another sponsored project and to the prior subaward project number. However, these transfers were (i) not supported by certified time and effort

<sup>1</sup> We initially questioned the retroactive salary increase of \$450 and related fringe and indirect costs of \$253. However, as a result of additional information that the University provided in its comments on our draft report, we have accepted these costs totaling \$703 (\$450 + \$253) and have adjusted our recommendations accordingly.

reports (the time and effort report supported charging time to the original project), (ii) not properly authorized, (iii) not adequately explained and supported, (iv) not supported by corrective actions to be implemented, and/or (v) made as much as 7 months after the original transaction. The explanations that the University provided to support the cost transfers were vague and unclear. For example, one explanation consisted of the following: “to match work done for study close-out--review of data/results--not process in May or June because of administrative oversight.”

As a result, we have questioned \$11,234 in salaries, fringe benefits, and indirect costs that did not comply with NIH and University requirements. These errors occurred because the University did not follow established procedures.

## **FINAL INVOICE SUBMISSION**

The University did not file its final invoice for the subaward period that ended July 31, 2005, within 45 days after the end of the subaward budget period, as the subaward agreement requires. The University’s final invoice, dated December 8, 2005, was submitted 85 days after the required 45-day period specified in the subaward, or a total of 130 days after the end of the subaward budget period. The University did not have adequate controls to ensure that final invoices were submitted promptly.

## **RECOMMENDATIONS**

We recommend that the University:

- comply with Federal and University requirements to ensure that cost transfers are properly authorized, supported by effort certification reports, adequately explained and documented, and accompanied by an explanation of controls to be implemented or corrective actions taken;
- establish controls to ensure that final invoices are submitted promptly; and
- work with Harvard University Medical School to resolve the \$11,234 (\$7,196 in direct costs + \$4,038 in indirect costs) that Harvard received from NIH for inappropriate cost transfers.

## **BOSTON UNIVERSITY’S COMMENTS**

In its September 19, 2006, response to our draft report, the University agreed that it did not always adhere to its procedures for cost transfers and concurred with our recommendations to strengthen these procedures.

Although the University acknowledged that it did not follow its cost transfer procedures, the University still believed all costs claimed were reasonable, allocable, and allowable. In regard to the total direct salaries of \$7,646 that we questioned, the University stated the following:

- \$450 (and related fringe and indirect costs of \$253) represented a change in the principal investigator's level of effort that occurred simultaneously with the retroactive salary increase.
- OMB Circular A-21, section C.4.b, is not relevant for the cost transfer totaling \$2,267 because the transfer for this employee was made within the same project, between budget years.
- It had processed the remaining cost transfer charges of \$4,930 (\$2,155 + \$2,775) to transfer the principal investigator's salary from her R01 grant to the subaward to correspond with her effort on the subaward. The University pointed out that the transfer document, which included May and June salaries, was initiated within the 90-day period but ultimately was processed 95 days after the May 31, 2004, salary expense of \$2,155. However, the other salary expense transfer of \$2,775 for June 30, 2004, was processed within the 90-day period.

The University's comments are included in their entirety in the Appendix.

#### **OFFICE OF INSPECTOR GENERAL'S RESPONSE**

The University's response contained additional information relating to the principal investigator's retroactive salary increase of \$450 (and related fringe and indirect costs of \$253). In light of this new information, we have adjusted the amount questioned in this report accordingly.

However, the University did not provide sufficient evidence for \$7,196 of the \$7,646 in salary cost transfers that we originally questioned in our draft report. In regard to these direct salary transfers, we maintain the following:

- OMB Circular A-21, section C.4.b, is relevant for the cost transfer of \$2,267 for one individual's salary because this transfer may involve shifting potential costs to other sponsored projects or other fund considerations. In addition, as the University mentioned in its response, the University did not always comply with its own procedures. The University's cost transfer document did not meet any of the University's requirements and was not supported by a certified time and effort report. Accordingly, we have questioned the transferred costs.
- Cost transfers of \$4,930 for the principal investigator's salary are unallowable in accordance with the University's procedures, which state that salary adjustments that increase the level of effort beyond the level certified on the time and effort report will not be accepted. Regardless of whether the University made the transfer within the 90-day period, the principal investigator's certified time and effort report does not support the transfer of the principal investigator's salary costs. Accordingly, we maintain that these costs are unallowable.

# **APPENDIX**



Boston University  
Medical Campus

Office of Research  
Administration

715 Albany Street, 560  
Boston, Massachusetts  
02118-2526  
617 638-4600

September 26, 2006

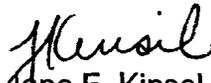
Mr. George A. Nedder  
Audit Manager  
U.S. Department of Health & Human Services  
Office of Inspector General  
Office of Audit Services  
John F. Kennedy Federal Bldg., Room 2425  
Boston, MA 02203

Dear Mr. Nedder,

Thank you for providing an opportunity to review and comment on the draft report of the DHHS Office of Inspector General, "Review of Subaward Costs Claimed by Boston University on NIH Grants Number 5 U01 HL066582-04 and 5 U01 HL066582-04S1 From August 1, 2003 through July 31, 2005." Attached please find the response of Boston University to the report.

If you have any questions, please don't hesitate to contact me. Thank you.

Sincerely,

  
Jane F. Kinsel, PhD, MBA  
Director

JFK:lm  
Attachment

cc: Margaret Calla  
Barbara Cole  
Herb Lewis  
Stephen McFarlane  
Steven Singer  
William Long, Jr.

**Boston University Response to DHHS Office of Inspector General:  
“Review of Subaward Costs Claimed by Boston University on NIH Grants  
Number 5 U01 HL066582-04 and 5 U01 HL066582-04S1 From August 1, 2003  
through July 31, 2005”**

Table 1 of the audit report indicates that \$7,196 in direct costs (salary expense) are deemed unallowable salary cost transfers.

In the case of [REDACTED], the salary charges of \$2,267 were transferred from one budget period to the subsequent budget period on the same project. Therefore, it appears that OMB Circular A-21, section C.4.b is not relevant in this situation, since the transfer was within the same project, between budget years. We concur with the other conditions noted in the audit report.

The cost transfer for the principal investigator from her R01 grant to the subaward was processed to have her salary charges correspond to her effort on the subaward. The explanation noted on page 4 of the audit report should read “To *match* (not master) work done for study”. The transfer document, which included both the May and June salaries, was initiated within the 90 day period, but ultimately was processed 95 days after the May 31, 2004 salary expense of \$2,155. The June 30, 2004 salary expense transfer of \$2,775 was processed within the 90 day period and followed established procedures.

Table 1 also notes an unallowable cost transfer of \$450 for a retroactive salary increase for the principal investigator, who received an annual salary increase of \$18,200 on August 31, 2004, retroactive to July 1, 2004. Simultaneously, her effort charged to the subaward as of July 1, 2004 increased from 9.9% to 12.98%. The salary cost transfer of \$601 reflected both the proportionate share of her salary increase and the increase in her effort. Her July salary was \$13,125 (the change from 9.9% to 12.98% = \$404). Her retroactive increase was \$1,517; at 12.98% the charge to the grant is \$197. The total of \$404 plus \$197 equals the salary expense transfer of \$601 processed in August 2004.

Boston University agrees with comments in the audit report that we did not always adhere to the University’s procedures for salary expense cost transfers. However, we do believe that the salary expenses, and the associated fringe benefit and facilities/administrative expenses are reasonable, allocable, and allowable to the subaward. We are cognizant of the need to improve the training of departmental staff responsible for grants management, as well as to enhance our management review procedures for cost transfers. Efforts are underway to ameliorate this situation.

Boston University agrees that the invoice to the contractor was issued late. We currently are working on systems to develop reports/procedures to ensure invoices to contractors are issued on a timely basis.