



September 16, 2010

**TO:** Francis S. Collins, M.D., Ph.D.  
Director  
National Institutes of Health

**FROM:** /Lori S. Pilcher/  
Assistant Inspector General for Grants, Internal Activities,  
and Information Technology Audits

**SUBJECT:** National Institutes of Health, National Center for Research Resources—Internal Control Review of the Process for Monitoring Extramural Construction Grants Under the American Recovery and Reinvestment Act (A-02-09-02020)

The attached final report provides the results of our review of internal controls over the National Institutes of Health, National Center for Research Resources' process for monitoring extramural construction grants funded under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act). This review was part of the Office of Inspector General's assessment of whether the Department of Health and Human Services is using Recovery Act funds in accordance with legal and administrative requirements and is meeting the accountability objectives defined by the Office of Management and Budget.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at [Lori.Pilcher@oig.hhs.gov](mailto:Lori.Pilcher@oig.hhs.gov). Please refer to report number A-02-09-02020 in all correspondence.

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**NATIONAL INSTITUTES OF HEALTH,  
NATIONAL CENTER FOR RESEARCH  
RESOURCES—INTERNAL CONTROL  
REVIEW OF THE PROCESS FOR  
MONITORING EXTRAMURAL  
CONSTRUCTION GRANTS UNDER  
THE AMERICAN RECOVERY AND  
REINVESTMENT ACT**



Daniel R. Levinson  
Inspector General

September 2010  
A-02-09-02020

# *Office of Inspector General*

<http://oig.hhs.gov>

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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:

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# *Notices*

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

Every taxpayer dollar spent on the economic recovery must be subject to unprecedented levels of transparency and accountability. The five crucial objectives for the Department of Health and Human Services (HHS) and its agencies are:

- Recovery Act funds are awarded and distributed in a prompt, fair, and reasonable manner.
- Recovery Act funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Recovery Act funds are used for authorized purposes and every step is taken to prevent instances of fraud, error, and abuse.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Projects funded under the Recovery Act ensure program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. An Office of Management and Budget memorandum (April 3, 2009) updated initial implementing Recovery Act guidance (February 18, 2009) and required that all Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement appropriate oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

### **National Center for Research Resources**

The HHS, National Institutes of Health (NIH) is the steward of medical and behavioral research for the nation. NIH is functionally organized into 27 institutes and centers. Within NIH, the National Center for Research Resources (NCRR) provides laboratory scientists and clinical researchers with the environments and tools they need to understand, detect, treat, and prevent a wide range of diseases. NCRR provides funding to eligible recipients through the issuance of discretionary grant awards.

## **Recovery Act Funding for Extramural Construction Projects**

The Recovery Act provides NCRR with \$1 billion in funding to help stimulate the economy via extramural construction projects to build, renovate, or repair non-Federal biomedical or behavioral research facilities. As of February 5, 2010, NCRR had awarded Recovery Act funding, totaling \$246 million, for 62 extramural construction projects. The funds were issued to eligible grantees, including institutions of higher education, non-profit, and regional organizations. NCRR is responsible for monitoring the progress of the extramural construction projects, and addressing non-compliance issues with the grantees. In March 2010, we issued a report on our review of internal controls over NCRR's process for awarding extramural construction grants funded under the Recovery Act (A-02-09-02011).

### **OBJECTIVE**

Our objective was to assess the internal controls NCRR has in place for monitoring extramural construction grants funded under the Recovery Act and to determine whether the controls have been suitably designed.

### **SUMMARY OF RESULTS**

The internal controls over the process used to monitor Recovery Act funds for extramural construction grants, as described by NCRR management, are suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved if the described internal controls were complied with satisfactorily and applied as designed. However, we did not perform procedures to determine the operating effectiveness of these internal controls. Accordingly, we express no opinion on the operating effectiveness of any aspect of NCRR's internal controls over the process used to monitor Recovery Act extramural construction grant funds, individually or in the aggregate.

This report is intended to provide a sufficient understanding of NCRR's process for monitoring Recovery Act funds for extramural construction awarded to grantees as it pertains to internal control objectives in the following internal control areas: authorization and approval; accuracy, completeness, and validity; physical safeguards and security; error handling; and segregation of duties.

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## INTRODUCTION

### BACKGROUND

#### Recovery Act Requirements

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), was signed into law by President Obama on February 17, 2009. The Recovery Act includes measures to modernize our nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

According to the Department of Health and Human Services (HHS) Recovery Act Web site,<sup>1</sup> every taxpayer dollar spent on the economic recovery must be subject to unprecedented levels of transparency and accountability. The five crucial objectives for HHS and its agencies are:

- Recovery Act funds are awarded and distributed in a prompt, fair, and reasonable manner.
- Recovery Act funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Recovery Act funds are used for authorized purposes and every step is taken to prevent instances of fraud, error, and abuse.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Projects funded under the Recovery Act ensure program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. An Office of Management and Budget (OMB) memorandum (April 3, 2009) updated initial implementing Recovery Act guidance (February 18, 2009) and required that all Federal agencies and departments receiving Recovery Act funds must maintain strong internal controls and implement appropriate oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

#### National Center for Research Resources

The HHS, National Institutes of Health (NIH) is the steward of medical and behavioral research for the nation. NIH is functionally organized into 27 institutes and centers. Within NIH, the National Center for Research Resources (NCR) provides laboratory scientists and clinical

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<sup>1</sup> Accessed at <http://www.hhs.gov/recovery/reports> on August 20, 2010.

researchers with the environments and tools they need to understand, detect, treat, and prevent a wide range of diseases.

## **Recovery Act Funding for Extramural Construction Projects**

The Recovery Act provides NCRRC with \$1 billion in funding to help stimulate the economy via extramural construction projects to build, renovate, or repair non-Federal biomedical or behavioral research facilities. As of February 5, 2010, NCRRC had awarded Recovery Act funding, totaling \$246 million, for 62 extramural construction projects. The funds were awarded to eligible grantees, including institutions of higher education, non-profit, and regional organizations through the issuance of discretionary grants.<sup>2</sup> NCRRC is responsible for monitoring the progress of the extramural construction projects, and addressing non-compliance issues with the grantee.

## **Prior Office of Inspector General Report**

In March 2010, we issued a report on our review of internal controls over NCRRC's process for awarding extramural construction grants funded under the Recovery Act.<sup>3</sup> We found that the internal controls for awarding Recovery Act funds for extramural construction grants, as described by management, were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described internal controls were complied with satisfactorily and applied as designed.

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

### **Objective**

Our objective was to assess the internal controls NCRRC has in place for monitoring extramural construction grants funded under the Recovery Act and to determine whether the controls have been suitably designed.

### **Scope**

We assessed NCRRC's internal controls over the process used to monitor Recovery Act funds awarded to construct, renovate, or repair existing non-Federal research facilities. Our assessment was limited to determining whether existing internal controls adequately achieved the internal control objectives for: (1) authorization; (2) accuracy, completeness, and validity; (3) physical safeguards and security; (4) error handling; and (5) segregation of duties. We did not perform procedures to determine the operating effectiveness of these internal controls. Accordingly, we

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<sup>2</sup> Discretionary grants are awarded under programs that permit NCRRC, in accordance with legislation, to exercise judgment in approving the project, project period, grantee and award amount.

<sup>3</sup> *National Institutes of Health: National Center for Research Resources—Internal Control Review of the Process for Awarding Extramural Construction Grants Under the American Recovery and Reinvestment Act (A-02-09-02011)*, issued March 22, 2010.

express no opinion on the operating effectiveness of any aspect of NCCR's internal controls over the process used to monitor Recovery Act funds, individually or in the aggregate. We performed fieldwork at NCCR offices in Bethesda, Maryland.

## **Methodology**

The internal control environment represents the collective effect of a number of elements in establishing, enhancing or mitigating the effectiveness of specific policies and procedures. To gain an understanding of NCCR's internal control environment, we:

- reviewed relevant Federal laws and regulations, including Recovery Act guidance issued by OMB, that NCCR must follow for monitoring grants;
- reviewed NCCR's organizational structure, including segregations of functional responsibilities, policy statements, operating manuals, and personnel policies; and
- interviewed NCCR management as well as operations, administrative, and other personnel responsible for developing, assuring adherence to, and applying internal controls.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **RESULTS OF REVIEW**

The internal controls over the process used to monitor Recovery Act funds for extramural construction grants, as described by NCCR management, are suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved if the described internal controls were complied with satisfactorily and applied as designed. This report is intended to provide a sufficient understanding of NCCR's process for monitoring Recovery Act funds for extramural construction awarded to grantees as it pertains to internal control objectives in the following internal control areas:

- authorization and approval: transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority;
- accuracy, completeness, and validity: all transactions should be consistent with the originating data and fairly represent the economic events that actually occurred, and no valid transactions should be omitted;
- physical safeguards and security: physical controls need to be established to secure and safeguard vulnerable assets and to limit access to resources and records to authorized individuals;

- error handling: errors detected at any stage of processing should receive prompt corrective action and be reported to the appropriate level of management; and
- segregation of duties: key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

## **AUTHORIZATION AND APPROVAL**

### **Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Grantee Financial Management Systems Comply With Federal Regulations**

- NCRP requires grantees to meet the standards for financial management systems set forth in 45 CFR §§ 74.21 or 92.20, as applicable. Specifically, grantee financial management systems must provide for accurate, current, and complete disclosure of financial results; records that identify the source and application of funds; effective control over and accountability for all funds; written procedures for determining the reasonableness, allocability, and allowability of costs; and accounting records that are supported by source documentation. To ensure the adequacy of grantee financial management systems, NCRP:
  - performs a risk assessment of new grantees to determine if they are capable of managing Federal funds,
  - reviews grant application documents and subsequent correspondence for existing grantees to identify any financial management deficiencies,
  - follows up on identified deficiencies for both new and existing grantees through telephone contact with grantee staff or through periodic site visits, and
  - addresses grantees who fail to correct financial management deficiencies by imposing special terms and conditions on awards or by requesting external audit assistance from the HHS Office of Inspector General.

### **Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Construction Plans and Specifications Are Approved**

- NCRP requires grantees to submit plans and specifications for extramural construction projects for review and approval within 4 months after receipt of the grant award. Grantees must submit revised plans and specifications addressing NCRP reviewer comments within 8 months after receipt of the grant award. If necessary, NCRP performs another review to provide additional comments. NCRP requires grantees to submit final plans and specifications no later than 14 months after receipt of the grant award. If a grantee does not submit plans and specifications according to the established timeframes, NCRP performs a site visit to the grantee. If the site visit and conversations

with grantee officials suggest that the grantee will be unable to complete the project, NCRR will terminate the grant.

### **Internal Control Objective 3: Internal Controls Provide Reasonable Assurance That Grantee Procurement Procedures Comply With Federal Regulations**

- NCRR requires grantees to procure the services of qualified contractors and other specialists to perform the actual renovations or construction upon NCRR's approval of final project plans and specifications. NCRR requires grantees to meet procurement standards set forth in 45 CFR §§ 74.40-74.48 or 45 CFR § 92.36, as applicable. Specifically, grantees must ensure that materials and services are obtained in an economical and practical manner in an environment which allows for open and free competition, to the maximum extent possible. In addition, grantees must stipulate in bid invitations a deadline for project completion, and must guarantee that contracts awarded will result in completion of a facility that conforms to plans and specifications approved by NCRR. To ensure the adequacy of grantee procurement procedures, NCRR reviews and approves grantee procurement procedures and justification and selection of bidder/contracts.

### **Internal Control Objective 4: Internal Controls Provide Reasonable Assurance That Post-Award Adjustments to Project Scope or Budget Are Approved**

- Grantees must obtain prior written approval from NCRR for post-award adjustments that would change the scope or budget of the construction project, including adjustments that would materially alter the cost of the project, space utilization, or changes in previously approved solicitations or contracts.

## **ACCURACY, COMPLETENESS, AND VALIDITY**

### **Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Extramural Construction Projects Are Completed Within Required Timeframes**

- Recovery Act funds for extramural construction projects must be expended by grantees within 5 years after receipt of the grant award. This timeframe is shorter than what was required under previous construction programs; therefore, NCRR has established the following controls to ensure that funds are expended within the required 5-year period:
  - NCRR reviews reports and correspondence from the grantee and performs periodic site visits to identify potential problems and areas where technical assistance might be necessary.
  - Grantees are required to file Financial Status Reports certifying that all expenditures and obligations are accurate, complete, and incurred for grant related purposes.
  - Grantees are required to file annual reports detailing the progress of each extramural construction project.

- NCRR reviews grantees' drawdowns of Federal funds from the HHS Payment Management System to determine if funds are being drawn in correlation to progress on the project.
- NCRR considers grantees' requests for post-award adjustments to the scope or budget of the project.
- NCRR conducts closeout site visits to ensure that completed projects conform to approved plans and specifications.
- NCRR monitors the progress of projects to determine if construction or renovations are progressing at a satisfactory rate. If NCRR is not satisfied with the progress, it may terminate the project.

**Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Constructed or Renovated Facilities Are Utilized for Intended Purposes**

- Extramural construction projects funded under the Recovery Act must be used for biomedical or behavioral research for a minimum of 10 years. To ensure that constructed or renovated facilities are utilized as required, NCRR:
  - requires grantees to record a lien or other Notice of Federal Interest with the jurisdiction in which the property is located,
  - requires grantees to annually submit a written certification that the facility is being used for its intended purpose,
  - performs site visits during the 10-year period to observe the use of grant-supported space, and
  - takes action to recover the Federal share of funds as warranted.

**PHYSICAL SAFEGUARDS AND SECURITY**

**Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Access to Grant and Accounting Records, Critical Forms, Processing Areas and Procedures Are Permitted Only in Accordance With Policy**

- NIH maintains an agency wide security program to safeguard and secure access to records. The NIH Fiscal Year 2008 Improper Payments Information Act Risk Assessment (risk assessment) noted that security policies were updated to align with new OMB, National Institute of Standards and Technology, and HHS policies and guidance. The risk assessment also noted that the Enterprise Master Information Technology Security Plan, which implements relevant Federal laws, regulations, and policies, was recently revised. Finally, the risk assessment noted that the information technology

security language for contracts and acquisitions compliance with the Federal Information Security Management Act (FISMA) and contractor security oversight was also revised.

## **Internal Control Objective 2: Internal Controls Provide Reasonable Assurance That Valuable Assets and Information Are Safeguarded From Unauthorized Access or Use**

- NIH officials told us NIH has actively addressed security issues by providing frequent training to staff. NIH has worked with HHS to develop role-based training for personnel with significant security responsibilities to comply with OMB requirements. NIH also recently updated its security awareness course, which is an annual requirement for all personnel who use information systems.
- NIH has a number of internal controls in place to ensure the safeguarding and security of data. NIH maintains an offsite server to provide backup and recovery of data. It implemented an automated Web-based application called the NIH Certification and Accreditation Tool that it uses for managing and tracking the inventory of information systems. The certification and accreditation is performed for 100 percent of FISMA systems, including systems that are critical infrastructure. Certification and accreditation ensures that safeguards are implemented effectively and commensurate with risks. NIH also implemented the HHS Security & Privacy Online Reporting Tool for tracking FISMA information.

## **ERROR HANDLING**

### **Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That the National Institutes of Health Maintains Accurate Grant Award Information and Records**

- An NIH online information system, Information for Management, Planning, Analysis, and Coordination (IMPAC II), contains application and award information on extramural programs. NCCR enters award data into IMPAC II, which uploads the data into NIH's Central Accounting System. The NIH Office of Financial Management, Government Accounting Branch performs a weekly reconciliation between IMPAC II and the Central Accounting System to ensure that there are no discrepancies in the award information contained in the two systems.
- NIH grant payments are made by the HHS Division of Payment Management using the Payment Management System. NIH transfers award information electronically from the Central Accounting System to the Payment Management System. Any items that do not pass Payment Management System edit checks are captured in a rotating Holding File maintained in the Payment Management System and are corrected by NIH Office of Financial Management accounting staff. In addition, the Government Accounting Branch performs a monthly reconciliation between the HHS Payment Management System and NIH Central Accounting System to ensure that there are no discrepancies in the award information contained in the two systems.

## **SEGREGATION OF DUTIES**

### **Internal Control Objective 1: Internal Controls Provide Reasonable Assurance That Opportunities for an Individual to Both Cause and Conceal Errors Are Reduced**

- To prevent errors or fraud, NCCR segregates the duties for the review and approval of grantee-submitted plans and specifications, procurement information, and requests for post-award adjustments. The NCCR Program Official uses the services of the NIH Division of Technical Resource, Office of Research Facilities to perform the review and approval of grantees' plans and specifications. The Office of Research Facilities, in consultation with the Program Official, works with grantees in preparing and submitting plans and specifications. Upon approval of the plans and specifications by the Program Official and the Office of Research Facilities, grantees begin the procurement process. The Program Official coordinates with the NCCR Grants Management Specialist and assigned engineer to review the procurement information and justification and selection of the bidder/contractor. After the Grants Management Specialist has approved the selection of the bidder/contractor, the NCCR Grants Management Officer revises the Notice of Grant Award to release the grant funds. The Grants Management Officer is the only NIH official authorized to obligate grant funds or to change the funding, duration, or other terms and conditions of award. Therefore, the Grants Management Officer is the only individual that can make grantee-requested changes to an award. However, prior to the Grants Management Officer making such changes, the Grants Management Specialist and Program Official must review and approve the requests for post-award adjustments.