



Office of Audit Services, Region III
Public Ledger Building, Suite 316
150 S. Independence Mall West
Philadelphia, PA 19106-3499

APR 5 2007

Report Number: A-03-05-03300

Robert L. Barchi, M.D., Ph.D.
President
Thomas Jefferson University
1020 Walnut Street, Suite 641
Philadelphia, Pennsylvania 19107

Dear Dr. Barchi:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General report entitled "Audit of Cost Transfers to Federal Grants at Thomas Jefferson University During the Period July 1, 2002, Through June 30, 2004." We have no recommendations to report. Because this report contains no recommendations, no response is necessary.

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 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).

If you have any questions or comments about this report, please do not hesitate to contact me at (215) 861-4470 or through e-mail at Stephen.Virbitsky@oig.hhs.gov, or your staff may contact Michael Walsh, Audit Manager, at (215) 861-4480 or through e-mail at Michael.Walsh@oig.hhs.gov. Please refer to report number A-03-05-03300 in all correspondence.

Sincerely,

Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosures - as stated

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF COST TRANSFERS TO
FEDERAL GRANTS AT THOMAS
JEFFERSON UNIVERSITY
DURING THE PERIOD
JULY 1, 2002, THROUGH
JUNE 30, 2004**



Daniel R. Levinson
Inspector General

April 2007
A-03-05-03300

Office of Inspector General

<http://oig.hhs.gov>

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:

Office of Audit Services

The Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

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

Thomas Jefferson University (the University) is an independent institution providing education and medical research in Philadelphia, Pennsylvania. For the year ended June 30, 2004, the University received \$134 million in research funding, of which the Federal Government funded \$94 million. The National Institutes of Health, an agency of the Department of Health and Human Services, provided 90 percent of the Federal funding.

Cost transfers are an accounting mechanism that enables grantees to move expenses from one funding source to another. Cost transfers to federally funded grants result in an expenditure of Federal funds. Grantees are required to maintain accounting records and documentation for cost transfers in order to assure that expenditures benefit grant objectives.

OBJECTIVE

The objective of our audit was to determine whether the University cost transfers to federally funded grants were documented in accordance with Federal requirements.

RESULTS OF AUDIT

The University generally documented cost transfers to federally funded grants in accordance with Federal requirements. Through documentation and explanation the University was able to justify all the transfers. We have no recommendations to report.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Thomas Jefferson University	1
Cost Transfers	1
Cost Transfers at Thomas Jefferson University.....	1
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective.....	2
Scope.....	2
Methodology	2
RESULTS OF AUDIT	3

INTRODUCTION

BACKGROUND

Thomas Jefferson University

Thomas Jefferson University (the University), located in Philadelphia, Pennsylvania, is an independent institution providing education through the Jefferson Medical College, the Jefferson College of Graduate Studies, and the Jefferson College of Health Professions. The University also performs research funded by grants from government and nongovernmental sources. For the year ended June 30, 2004, the University received grants and contracts totaling \$134 million, of which the Federal Government awarded \$94 million. The National Institutes of Health (NIH), an agency of the Department of Health and Human Services (HHS), provided 90 percent of the Federal funding.

In order to receive Federal funding, grantees agree to comply with Federal requirements, including the requirement to maintain documents that identify how grant funds are used (45 CFR § 74.21(b)). The Federal Government awards grant funds to achieve certain objectives. Attachment, section C.4, of Office of Management and Budget (OMB) Circular A-21, “Cost Principles for Educational Institutions,” requires that the grantee must use those funds only to pay expenses that benefit those objectives of the granting program. Federal awarding agencies determine the extent to which an expense benefits grant objectives with source documentation.

Cost Transfers

Cost transfers allow grantees to move expenses from one funding source to another. An expense initially charged to one grant may later be transferred to another to correct an accounting error. Also, if a cost benefits more than one project, cost transfers may allocate costs among benefited projects. Accordingly, a grantee may not make a cost transfer to a Federal grant if the cost does not benefit grant objectives, or if the cost should be charged to another grant from industry, foreign governments, or other sponsors. A grantee may not transfer costs to a Federal grant to meet deficiencies caused by overruns, for other fund considerations, or for “reasons of convenience” (Attachment, section C.4 of OMB Circular A-21).

Cost Transfers at Thomas Jefferson University

Since 1996, NIH has designated the University as high risk because of questionable accounting for grant fund expenditures, specifically in accounting for cost transfers. In 2000, the University entered into an institutional integrity agreement (Agreement) with HHS. In the Agreement the University stated it “adopted and implemented new policies and procedures for cost transfers ...” (Institutional Integrity Agreement between HHS and Thomas Jefferson University, dated May 19, 2000, at Preamble 1, paragraph 2).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether the University cost transfers to federally funded grants were documented in accordance with Federal requirements.

Scope

We audited cost transfers totaling \$7,336,960 made between July 1, 2002, and June 30, 2004. We selected a statistical sample of 136 cost transfers totaling \$994,840, from a universe of 3,494. Our universe consisted of labor and other direct cost transfers greater than \$100 made to federally funded grants during the period July 1, 2002, through June 30, 2004. Other direct costs included in the universe were items such as supplies and equipment. We eliminated cost transfers for work-study and for allocations from internal service centers. The universe and the sample did not include fringe benefits associated with labor costs, or facilities and administrative costs.

We limited our review of internal controls to obtaining an understanding of the University's policies and procedures applicable to cost transfers during our audit period.

We performed fieldwork at the University in Philadelphia, Pennsylvania.

Methodology

To determine if cost transfers complied with Federal requirements we:

- reviewed applicable criteria in Federal law and regulations, agency specific requirements, and University policies and procedures;
- interviewed University personnel regarding cost transfer procedures;
- drew a sample of cost transfers made to Federal grants during our audit period; and
- reviewed documents provided by the University to explain sampled cost transfers.

To draw a sample of cost transfers, we used a database provided by the University. The University database consisted of all cost transfers to federally funded grants during our audit period. To validate the accuracy of this database, we also verified that certain cost transfers, documented in NIH records, were included in the University cost transfer database.

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

RESULTS OF AUDIT

The University generally documented cost transfers to federally funded grants in accordance with Federal requirements. Through documentation and explanation the University was able to justify all the transfers. We have no recommendations to report.