

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**COSTS CLAIMED BY JOHNS HOPKINS
BAYVIEW MEDICAL CENTER UNDER
NATIONAL INSTITUTES OF HEALTH
CONTRACT NUMBER
HHSN292200900002C WERE
GENERALLY ALLOWABLE**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Stephen Virbitsky
Regional Inspector General

September 2013
A-03-12-03300

Office of Inspector General

<https://oig.hhs.gov>

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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.



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



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SEP 13 2013

Report Number: A-03-12-03300

Mr. Craig R. Brodian
Vice President, Human Resources
Johns Hopkins Bayview Medical Center
4940 Eastern Avenue
Baltimore, MD 21224

Dear Mr. Brodian:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Costs Claimed by Johns Hopkins Bayview Medical Center Under National Institutes of Health Contract Number HHSN292200900002C Were Generally Allowable*. We will forward a copy of this report to the HHS action official noted on the following page 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 this 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.

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. Accordingly, this report will be posted at <https://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Robert Baiocco, Audit Manager, at (215) 861-4486 or through email at Robert.Baiocco@oig.hhs.gov. Please refer to report number A-03-12-03300 in all correspondence.

Sincerely,

Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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INTRODUCTION

WHY WE DID THIS REVIEW

The National Institutes of Health (NIH), National Institutes on Aging, Gerontology Research Center, had concerns about the cost of utilities and steam heat under a utilities contract between NIH and Johns Hopkins Bayview Medical Center (Bayview). Accordingly, NIH requested that we conduct an audit of the contract, number HHSN292200900002C (contract).

OBJECTIVE

Our objective was to determine whether costs claimed for the contract were allowable in accordance with Federal regulations and contract agreements.

BACKGROUND

Johns Hopkins Bayview Medical Center

Bayview is part of the Johns Hopkins Health System. NIH owns the Gerontology Research Center building, which is located at the Bayview facility, and contracts with Bayview for utilities. Bayview purchases electricity and water from local utility companies and provides steam for heat from its central utilities plant.

NIH requested a Department of Health and Human Services, Division of Cost Allocation review of the contract because NIH had concerns about the rising costs of water, electricity, and steam, and about the indirect cost rate of 9.3 percent under the contract. NIH subsequently requested that we audit the direct and indirect costs charged to the contract.

HOW WE CONDUCTED THIS REVIEW

Our audit included costs of \$8,607,181 claimed on vouchers between October 1, 2008, and March 31, 2012 (audit period). We excluded depreciation costs of \$373,289 and related indirect costs of \$30,904 from our sampling population and reviewed those costs separately. We also excluded items under \$10. From the remaining expense items we reviewed a simple random sample of 41 items consisting of salaries, electricity, steam and water totaling \$409,458.

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 objectives.

Appendix A contains the details of our audit scope and methodology.

FINDINGS

Of \$8,607,181 claimed by Bayview, \$8,541,049 was allowable in accordance with applicable Federal regulations and contract agreements. During our audit period, Bayview identified unallowable depreciation and related indirect costs totaling \$66,132 and refunded that amount to NIH. Therefore, we have no recommendation.

Cost Category	Costs Claimed	Costs Questioned	Allowable Costs
Salaries	\$87,771	\$0	\$87,771
Fringe Benefits	27,121	0	27,121
Steam	3,741,667	0	3,741,667
Electricity	3,193,873	0	3,193,873
Water	454,589	0	454,589
Depreciation	373,289	35,228	\$338,061
Indirect	728,871	30,904	697,967
Total	\$8,607,181	\$66,132	\$8,541,049

JOHNS HOPKINS BAYVIEW MEDICAL CENTER COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Bayview objected to our request for documentation identifying the original valuation of the central utilities plant and stated that the Division of Cost Allocation had approved the allocation of depreciation costs in 1994. However, Bayview provided us with bond information relating to the funding of the central utilities plant's construction costs. Bayview noted that it had identified and refunded \$66,132 in unallowable depreciation costs and unallowable indirect costs relating to the depreciation costs. Based on the information provided, we modified our report and have no recommendation.

We included Bayview's comments in their entirety as Appendix B to this report.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

Scope

The audit period included costs of \$8,607,181 claimed on vouchers between October 1, 2008, and March 31, 2012. We excluded 111 transactions related to \$482 for individual items under \$10. Our audit objective did not require an understanding or assessment of the complete internal structure of Bayview. We limited our internal control review to obtaining an understanding of Bayview's accounting system as it relates to costs claimed on vouchers of the contract. We also evaluated the opinions expressed by the independent auditor in Bayview's OMB Circular A-133 report for the year ended June 30, 2011.

We performed fieldwork at Johns Hopkins Health Systems offices in Baltimore, Maryland, from April 2012 through March 2013.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations pertaining to contracts and non-profit organizations;
- reviewed the contract between NIH and Bayview;
- interviewed Bayview and accounting department officials concerning the contract;
- reviewed a simple random sample of 41 items consisting of salaries, electricity, steam, and water totaling \$409,458;
- separately reviewed depreciation costs of \$373,289 and \$30,904 of related indirect costs;
- reviewed Bayview's policies and procedures related to finance, personnel, and internal controls;
- reviewed audited financial statements;
- reviewed accounting records supporting costs claimed on the contract and source documents for selected items; and
- obtained the rate agreement for fringe benefits and indirect costs.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: BAYVIEW COMMENTS

4940 Eastern Avenue
Baltimore, MD 21224-2780
410-550-0100
TTY 410-550-0316



August 29, 2013

Report Number: A-03-12-03300

Mr. Stephen Virbitsky
Regional Inspector General for Audit Services
Office of Audit Services, Region III
Public Ledger Building, Suite 316
Philadelphia, PA 19106

Dear Mr. Virbitsky,

Enclosed is the Johns Hopkins Bayview Medical Center's (Bayview) response to the Office of the Inspector General's (OIG) draft report dated June 3, 2013. As instructed in your letter we have included a statement of concurrence or nonoccurrence with our recommendations. We want to thank you and your team for allowing us an extension to gather the necessary support for our responses.

If you have any questions or comments about our response, please do not hesitate to call me 410-550-0444, or contact John Heyl, Director of General Accounting, at 443-997-5720 or through his e-mail at jhey11@ihmi.edu.

Sincerely,



Craig Brodian
Vice President, Human Resources

Cc: Michael W. Walsh
Michael Jones
Laura Callahan Mezan, Esq.
John Farenish, Esq.

Johns Hopkins Bayview Medical Center's Response to Report Number: A-03-12-03300

Introduction

The Johns Hopkins Bayview Medical Center ("Johns Hopkins" or "Bayview") appreciates this opportunity to respond to Department of Health and Human Services ("HHS") Office of Inspector General's ("OIG") draft audit report under National Institutes of Health ("NIH" or the "contract") Contract Number HHSN292200900002C. Based on the facts discussed below, Johns Hopkins Bayview respectfully requests that the OIG drop in its entirety the Recommendation in the Draft Audit Report that Bayview refund NIH \$404,193¹ for central utility plant depreciation costs and related indirect costs charged to the contract that the OIG suggests should be refunded.

Background

Johns Hopkins Bayview Medical Center (JHBMC) is a member institution of the Johns Hopkins Health System and shares the same Service Excellence philosophies as Johns Hopkins Hospital. Johns Hopkins Hospital has been able to secure the #1 Hospital rating in U.S. News and World Report for 21 years because of both its emphasis in recruiting exceptional facility and seamless integration of support services

JHBMC supports the National Institute on Aging (NIA), Intramural Research Program (IRP), with water and utilities services. The NIA IRP is housed in the Gerontology Research Center (GRC), which is a federal-owned facility located on the campus of the JHBMC. The GRC was built without its own power plant and therefore it relies on the JHBMC facility to provide steam, electricity and water. The power plant is connected to the JHBMC hospital by an elevated and enclosed bridge. The NIA's Gerontology Research Facility pays JHBMC for the cost of these utility services via contract. The contract is a mix of cost-reimbursable and firm-fixed price.

In 1992, JHBMC developed and built a Central Utility Plant (CUP) to provide the necessary utility services for the GRC. The current utility infrastructure has been in place for decades when the medical center was owned and operated by the City of Baltimore. The actual procedure for charging out the cost of providing the utilities to the various users on the JHBMC campus has been consistent since the opening of the CUP. The process is based on an accumulation of the costs of producing utilities (steam, chilled water and water) divided by the total units produced for each utility yielding a cost per unit. This cost per unit is then charged to each user based upon meter readings. The exception to this process is depreciation which is charged at a flat, straight-line amount directly to the contract and overhead costs which is based on a negotiated overhead rate. The JHBMC has provided the GRC with excellent steam, electric and water service for nearly three decades.

Discussion

1. The CUP Provides Valuable Power to Support the NIH Mission

¹ Bayview refunded \$66,131.82 in depreciation charges to NIH in August 2012 – the OIG recommended refund amount does not consider this payment already made. Therefore, the remaining amount in question is \$338,061.

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The Central Utility Plant (CUP) provides the necessary utility services for the GRC without which the NIH IRP could not perform its invaluable mission in support of the NIA. The GRC building is supplied with 13,200 volt power from switches located in the JHBMC Central Utilities Plant. Water is supplied from the pumping arrangement in the JHBMC at a rate of 800 gallons per minute with smaller pumps that serve as back up to the main pumps and are also available in the event of fire. Steam is generated by the Bayview Boiler Plant and is distributed saturated at 100 pound per square inch. Utility usage is charged based on the exact usage by virtue of utility meter readings.

In December 1962, five acres of land for a Gerontology Research Center were donated by the City of Baltimore. On June 15, 1968, the four-story \$7.5 million Gerontology Research Center building, located at and operated in cooperation with Baltimore City Hospitals, was officially opened. In 2006, a new biomedical research facility opened on the Johns Hopkins Bayview Medical Center campus to house the National Institutes on Aging and Drug Abuse.

NIH's Biomedical Research Center at Bayview houses scientists and support staff working on biomedical intramural research programs for the NIH's National Institute on Drug Abuse and National Institute on Aging. The 573,000 square-foot facility provides state-of-the-art laboratory, vivarium, clinical, library and office space. Research is conducted in several sites; the Office of the Scientific Director and administrative and research services are located at the Biomedical Research Center and most of the laboratories are based at the Biomedical Research Center on the Johns Hopkins Bayview Campus in Baltimore, Maryland.

The Central Utility Plant (CUP) provides all the necessary utility services for the GRC without which the NIH IRP could not perform its mission in support of the NIA. For nearly three decades the CUP has provided these invaluable services to the NIA.

2. The GRC Benefits from the Depreciation Allocation

The period under audit by the OIG is October 1, 2008 through March 31, 2012. Extensive review of billing allocation methodologies and line items billed took place over a fifteen month time period. No inconsistencies or problems with the billing practices were discovered during this process. One finding relating to the depreciation charged to the contract was issued in the draft audit report.

Since 1992, the assets for the Central Utility Plant (CUP) at JHBMC were recorded in the fixed asset system as follows:

Building Component	\$ 8,909,800.24	30 year life
Fixed Equipment Component	\$ 7,081,419.33	20 year life
Other Equipment Component	\$ 198,957.02	15 year life
	\$16,190,176.59	

Understanding the need to grow campus operations and add new patient care facilities, JHBMC developed the Central Utility Plant (CUP) in 1992 implementing new utility technologies. Depreciation was charged as a direct cost to the GRC at a rate of approximately

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\$9,000 per month throughout the period under audit totaling \$404,192.75. This calculation is based on 14.69% of the total monthly depreciation for the CUP. That percentage represents the weighted average use of the CUP by the GRC as calculated when the assets were placed in service. The monthly depreciation charge was never revised for changes to the asset base in the CUP, despite several, additional equipment purchases during the contract period to maintain the CUP's functionality and performance.

The OIG recommended that JHBMC pay back the full \$404,193 amount charged in depreciation to the contract over the audited period due to lack of underlying support for the asset values. However, in 1994, the Department of Health and Human Services' Division of Cost Allocation's performed an audit on the costs charged to this contract and did not find issue related to the depreciation schedule for NIA. Hence, the Government was aware of and approved the depreciation schedule previously. To disallow the depreciation schedule now because of the lack of documentation of asset valuation some 20 plus years later would be unconscionable.

3. Depreciation Costs Conformed to NIH Regulatory Requirements

As noted above, in 1994, the Department of Health and Human Services' Division of Cost Allocation's performed an audit on the contract and did not find issue related to the depreciation schedule for NIA. JHBMC's understanding is that the methodology used by JHBMC conformed to NIH Regulations at the time as no issues were discovered related to depreciation costs charged to the contract. The depreciation costs have been charged in the same straight-line amount since 1994.

The period under the current audit by the OIG is October 1, 2008 through March 31, 2012. Extensive review of billing allocation methodologies and line items billed took place over a fifteen month time period. No inconsistencies or problems with JHBMC billing practices were discovered during this process. One finding relating to the depreciation charged to the contract was issued in the audit report.

Depreciation was charged as a direct cost to the GRC at a rate of approximately \$9K per month throughout the period under audit totaling \$404,192.75. This calculation is based on 14.69% of the total monthly depreciation for the CUP. That percentage represents the weighted average use of the CUP by the GRC as calculated when the assets were placed in service. The monthly depreciation charge was never revised for changes to the asset base in the CUP.

The OIG recommends that JHBMC pay back the full \$404K amount charged in depreciation to the contract over the audited period due to lack of underlying support for the asset values. This recommendation was made despite the fact that the OIG auditors toured the CUP facility, observing the building and equipment used to provide utilities to the GRC. After JHBMC received the initial finding they attempted to put together additional documentation based on estimates located in the bond documents that were issued in 1992. JHBMC discussed this approach with the OIG auditors on Tuesday June 25. They agreed to review the calculation of depreciation based on the bond book estimates. JHBMC received a response from the OIG auditors stating that the additional documentation JHBMC provided did not satisfy their requirements for appropriate source documentation. JHBMC has made numerous additional attempts to satisfy the OIG's request for documentation.

4. Bayview Has Made Extensive Attempts to Satisfy the Auditor's Request for Documentation to Support the Depreciation Costs

In response to the OIG auditor's request for documentation, Bayview has made an extensive search for the documents which are 20 plus years old. At the time of CUP construction/capitalization, the accounting function was decentralized -documentation originated at Bayview but is located in various locations. The search consisted of the following steps:

- Several employees examined basement file cabinets at Bayview
- Fixed asset shared service center (now centralized) examined off-site storage boxes
- General accounting (now centralized) examined off-site storage boxes
- JHBMC's federal contract liaisons examined off-site storage boxes and their records.
- Tax department (now centralized) examined their records
- Facilities department (now centralized) examined their records
- Contacted treasury department and recreated an estimate based on bond document estimates created during the issuance of financing for the project
- Attempted to interview any individual who was involved in the accounting for the CUP
- Attempted to access prior information systems to locate additional online documentation

This extensive search by JHBMC did not uncover the 20 plus year old documents that the OIG seeks.

5. Demanding a Refund for the CUP Depreciation Costs and Related Indirect Costs Would be Unconscionable

For nearly three decades, the JHBMC Central Utility Plant (CUP) has provided invaluable services to the NIH by providing the necessary utility services for the GRC without which the NIH IRP could not perform its mission in support of the NIA. In 1994, the Department of Health and Human Services' Division of Cost Allocation's performed an audit on the contract and did not identify issues related to the depreciation schedule for NIA. The depreciation costs have been charged in the same straight-line amount in accordance with the schedule since that audit in 1994. The monthly depreciation charge was never revised for changes to the asset base in the CUP, despite additional equipment purchases during the contract period to maintain the CUP's functionality and performance.

Further, the Government has accepted the depreciation costs since 1994 and has never questioned the costs. JHBMC reasonably relied upon the Government's approval of the depreciation schedule in 1994 because the schedule was correct and conformed to NIH

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requirements. To disallow the depreciation costs at this point in time would be wholly inconsistent with the Government's earlier approval of the depreciation schedule and would operate to the detriment of JHBMC. A manifest injustice would be created if NIH were to disallow the depreciation costs and related indirect costs charged to the contract that the OIG suggests should be refunded.

Bayview would suggest that this juncture it would be unconscionable for the Government to demand a refund from JHBMC and that the Government would be equitably estopped based on the history of dealings between NIH and JHBMC from requesting a refund for the depreciation and related indirect costs for the lack of a piece of paper.

6. Conclusion

Based on the facts discussed above, Johns Hopkins Bayview respectfully requests that the OIG drop in its entirety the Recommendation in the Draft Audit Report that Bayview refund NIH \$404,193 for central utility plant depreciation costs and related indirect costs charged to the contract that the OIG suggests should be refunded.