

Report in Brief

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U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Review

The Department of Health and Human Services (HHS), National Institutes of Health (NIH), Division of Financial Advisory Services (DFAS), is the cognizant Federal agency responsible for negotiating and establishing indirect cost rates for for-profit organizations that receive the majority of their Federal awards from HHS.

In 2015, the HHS Office of Inspector General (OIG) determined that DFAS had a large backlog of unfinalized indirect cost rates that may have contributed to the untimely closeout of contracts totaling \$25 billion at the Centers for Medicare & Medicaid Services. In 2016, the Government Accountability Office identified weaknesses in the design of DFAS's internal controls for establishing indirect cost rates.

Our objective was to determine whether DFAS established final indirect cost rates for applicable organizations in accordance with Federal requirements.

How OIG Did This Review

Our audit covered 1,187 final indirect cost rate agreements that DFAS established for organizations during fiscal years 2012 through 2016. We selected a sample of 15 rate agreements—3 rate agreements for each year of the audit period; reviewed the DFAS case files containing the proposals and work papers associated with each sampled rate agreement; interviewed auditors and supervisors assigned to the proposals; and determined the extent to which DFAS complied with Federal requirements for reviewing, negotiating, and establishing final indirect cost rates.

The National Institutes of Health, Division of Financial Advisory Services Did Not Always Establish Final Indirect Cost Rates in Accordance With Federal Requirements

What OIG Found

DFAS did not always establish final indirect cost rates for applicable organizations in accordance with Federal requirements during our audit period. DFAS had procedures to assess the allowability, allocability, and reasonableness of proposed indirect costs and identified unallowable costs that were excluded in its negotiations of rate agreements; however, DFAS did not always obtain adequate data demonstrating that (1) organizations' proposed indirect costs were allowable, allocable, and reasonable in accordance with the Federal Acquisition Regulation (FAR) and (2) proposed direct cost bases were appropriate for the fair distribution of indirect costs to cost objectives; DFAS may not have established indirect cost rates as promptly as practical after receiving proposals; and DFAS used indirect cost rate ceilings in situations not covered by the FAR.

DFAS did not always comply with Federal requirements for establishing indirect cost rates because neither NIH nor HHS had adequately defined the extent of DFAS's roles and responsibilities as a cognizant Federal agency for indirect cost rates.

What OIG Recommends and NIH Comments

We make several recommendations to DFAS to clarify its roles and responsibilities as a cognizant Federal agency for indirect cost rates and to update its policies and procedures to comply with Federal requirements. Refer to the report for the full text of our recommendations.

In written comments on our draft report, NIH did not concur with our recommendations. NIH stated that it believed that significant corrective actions have already taken place, such as adding two new branches devoted to indirect cost rates within its organization and rolling out procedures for assessing risk in determining the adequacy of indirect cost rate proposals. NIH also provided technical comments on our draft report that we have incorporated into this report as appropriate.

We maintain that our findings and recommendations are correct. However, we partially revised our first recommendation based on NIH's comments.