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.