



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region V  
233 North Michigan Avenue  
Suite 1360  
Chicago, IL 60601

December 13, 2011

Report Number: A-05-11-00030

Ms. Anne Moffat  
Executive Director, Office of Sponsored Programs  
The Ohio State University  
1960 Kenny Road  
Columbus, OH 43210

Dear Ms. Moffat:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Administrative and Clerical Costs at The Ohio State University for the Period July 1, 2008, Through June 30, 2010*. 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 <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Mike Barton Audit Manager, at (614) 469-2543 or through email at [Mike.Barton@oig.hhs.gov](mailto:Mike.Barton@oig.hhs.gov). Please refer to report number A-05-11-00030 in all correspondence.

Sincerely,

/Sheri L. Fulcher/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

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Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF ADMINISTRATIVE AND  
CLERICAL COSTS AT THE OHIO STATE  
UNIVERSITY FOR THE PERIOD JULY 1,  
2008, THROUGH JUNE 30, 2010**



Daniel R. Levinson  
Inspector General

December 2011  
A-05-11-00030

# *Office of Inspector General*

<http://oig.hhs.gov>

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The Office of Audit Services (OAS) provides 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.

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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 Ohio State University (the University) is a public institution located in Columbus, Ohio. During the period July 2008 through June 2010, the University claimed reimbursement for \$296,670,144 on 1,036 grants with components of the Department of Health and Human Services (HHS).

In accepting grants awarded by HHS and other Federal agencies, the University agreed to comply with regulations governing the use of Federal funds and ensure that costs charged to those grants were allowable under the cost principles established in 2 CFR pt. 220 (formerly Office of Management and Budget (OMB) Circular A-21), *Cost Principles for Educational Institutions* (the Cost Principles). These cost principles require that, to be allowable, costs must be reasonable, be allocable, conform to any exclusions or limitations set forth in the cost principles or sponsored agreements, and be given consistent treatment through the application of generally accepted accounting principles.

With respect to administrative and clerical costs, the Cost Principles state that colleges and universities should generally treat these expenses as facilities and administrative (F&A) costs and thus recover the applicable portion of those expenses through F&A rates negotiated with the Federal government. However, the criteria also recognize that direct charging of these expenses may be appropriate in “unlike circumstances” or for certain “major projects.”

“Unlike circumstances” are where a type of cost that is consistently charged as an F&A cost, could potentially be charged to as a direct cost, because the circumstances depart from the norm. Circumstance outside the norm may mean a major project with unique requirements or a cost that can be specifically associated with a grant with a high degree of accuracy.

“Major projects” are defined in the Cost Principles as projects that require an “extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments.”

### OBJECTIVE

Our objective was to determine whether the University treated administrative and clerical salaries, as well as other costs normally charged as indirect costs, on a consistent basis as either direct or indirect charges, except when incurred in “unlike circumstances” or for a “major project” in accordance with the Cost Principles.

### SUMMARY OF FINDINGS

The University generally treated administrative and clerical salaries, as well as other costs normally charged as indirect costs, on a consistent basis as either direct or indirect charges, except when incurred in “unlike circumstances” or for a “major project” in accordance with the Cost Principles.

Based on our two statistical samples, consisting of 100 charges for administrative and clerical salaries and 259 charges for administrative costs other than salaries, we determined that the University did not adequately document or support 11 charges with a total value of \$2,100. The University generally had established adequate controls and ensured consistent compliance with the Federal requirements applicable to charges for administrative and clerical costs. The University's Office of Sponsored Programs generally provided adequate scrutiny for charges proposed by colleges, departments, and principal investigators to ensure that those charges fully complied with Federal regulations.

## **RECOMMENDATIONS**

We recommend that the University:

- credit applicable grants for costs not adequately documented, totaling \$2,100; and
- strengthen its procedures to ensure administrative and clerical costs are correctly treated as either direct or indirect charges.

## **UNIVERSITY COMMENTS**

In written comments on our draft report, the University concurred with our recommendations. The University's comments are included in their entirety in the Appendix to the report.

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## INTRODUCTION

### BACKGROUND

The Ohio State University (the University) is a public institution located in Columbus, Ohio. During the period July 2008 through June 2010, the University claimed reimbursement for \$296,670,144 on 1,036 grants with components of the Department of Health and Human Services (HHS).

In accepting grants awarded by HHS and other Federal agencies, the University agreed to comply with regulations governing the use of Federal funds and ensure that costs charged to those grants were allowable under the cost principles established in 2 CFR pt. 220 (formerly Office of Management and Budget (OMB) Circular A-21), *Cost Principles for Educational Institutions* (the Cost Principles). These cost principles require that, to be allowable, costs must be reasonable, be allocable, conform to any exclusions or limitations set forth in the cost principles or sponsored agreements, and be given consistent treatment through the application of generally accepted accounting principles.

With respect to administrative and clerical costs, the Cost Principles state that colleges and universities should generally treat these expenses as facilities and administrative (F&A) costs and thus recover the applicable portion of those expenses through F&A rates negotiated with the Federal government. However, the criteria also recognize that direct charging of these expenses may be appropriate in “unlike circumstances” or for certain “major projects.”

“Unlike circumstances” occur when a type of cost that is consistently charged as an F&A cost, could potentially be charged as a direct cost, because the circumstances depart from the norm. Circumstance outside the norm may mean a major project with unique requirements or a cost that can be specifically associated with a grant with a high degree of accuracy.

“Major projects” are defined in the Cost Principles as projects that require an “extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments.”

### OBJECTIVE, SCOPE, AND METHODOLOGY

#### Objective

Our objective was to determine whether the University treated administrative and clerical salaries, as well as other costs normally charged as indirect costs, on a consistent basis as either direct or indirect charges, except when incurred in “unlike circumstances” or for a “major project” in accordance with the Cost Principles.

#### Scope

Our audit covered costs claimed for reimbursement for the period from July 1, 2008, through June 30, 2010. The audit was limited to grants between the University and organizational

components of HHS, including the National Institutes of Health (NIH), the Centers for Disease Control and Prevention (CDC), the Substance Abuse and Mental Health Services Administration (SAMHSA), and the Health Resources and Services Administration (HRSA). We did not evaluate charges to the University's agreements with other Federal departments or agencies. We also did not evaluate F series (Individual Fellowship) or T series (Research Training) awards during this audit.

We limited our assessment of internal controls to policies and procedures related to the University's identification of and accounting for administrative and clerical expenses.

We performed our fieldwork at the University's Office of Sponsored Programs in Columbus, Ohio.

## **Methodology**

To accomplish our audit objective, we:

- held discussions with University officials in the Office of Sponsored Programs and the Department of Internal Audit;
- reviewed the University's policies and procedures related to the identification of and accounting for administrative and clerical expenses;
- reviewed the University's Cost Accounting Standards Board Disclosure Statement (DS-2);<sup>1</sup>
- identified codes assigned to administrative and clerical expenses in the University's chart of accounts;
- extracted transactions from the accounting records involving administrative and clerical expenses charged to HHS-funded grants;
- selected and tested statistical samples of 100 administrative and clerical salary expenditures and 259 administrative costs other than salary expenditures charged directly to HHS-funded grants to determine whether the charges were allowable in accordance with the Cost Principles; and
- stratified the 259 administrative costs into 5 distinct strata,
  - cost categories identified by the University as indirect costs,
  - gift cards and honorariums,
  - scientific and educational supplies,
  - other supplies and equipment, and
  - claimed costs of more than \$100,000.

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<sup>1</sup> Educational institutions that receive aggregate sponsored agreements totaling \$25 million or more are required to disclose their cost accounting practices by filing a disclosure statement (the DS-2). The University has submitted a DS-2 to the HHS Division of Cost Allocation.

We initially evaluated the sample expenditures based on documentation held on hand and outside by various departments in project files. Following our initial evaluation, we then asked the University's Office of Sponsored Programs and the involved principal investigators to submit additional information to support that direct charges to the grants, contracts, or other agreements were appropriate.

We reviewed the findings and determinations of prior and ongoing reviews related to the review of indirect costs at universities. We also contacted auditors who had worked on this type of review to obtain a better understanding of how to approach various cost categories.

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.

## **FINDINGS AND RECOMMENDATION**

The University generally treated administrative and clerical salaries, as well as other costs normally charged as indirect costs, on a consistent basis as either direct or indirect charges, except when incurred in "unlike circumstances" or for a "major project" in accordance with the Cost Principles.

Based on our two statistical samples, consisting of 100 charges for administrative and clerical salaries and 259 charges for administrative costs other than salaries, we determined that the University did not adequately document or support 11 charges with a total value of \$2,100. The University generally had established adequate controls and ensured consistent compliance with the Federal requirements applicable to charges for administrative and clerical costs. The University's Office of Sponsored Programs generally provided adequate scrutiny for charges proposed by colleges, departments, and principal investigators to ensure that those charges fully complied with Federal regulations.

## **DETERMINING ALLOWABILITY**

Section C.2 from 2 CFR pt. 220, Appendix A establishes four criteria governing the allowability of costs charged to Federal grants. To be allowable, costs must be reasonable, be allocable, conform to any exclusions or limitations set forth in the cost principles or sponsored agreements, and be given consistent treatment through the application of generally accepted accounting principles.

With respect to administrative and clerical costs, the Cost Principles state that colleges and universities should generally treat these expenses as facilities and administrative (F&A) costs and thus recover the applicable portion of those expenses through F&A rates negotiated with the Federal government. However, the criteria also recognize that direct charging of these expenses may be appropriate in "unlike circumstances" or for certain "major projects."

Unlike circumstances are described in Exhibit C of the Cost Principles. “Major projects” are defined as projects that require an “extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments.”

Limitations are set forth in section F.6.b of the Cost Principles. This section adds specific guidance regarding the treatment of charges for administrative and clerical expenses (the subject of this audit) incurred within various departments of a college or university, including the following: “The salaries of administrative and clerical staff should normally be treated as F&A [Facilities and Administrative] costs” (section F.6.b.2) and “Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs” (section F.6.b.3).

Exhibit C to 2 CFR pt. 220, Appendix A provides examples of projects for which direct charges for administrative and clerical expenses may be appropriate (unlike circumstances), as quoted here:

- Large, complex programs such as General Clinical Research Centers, Primate Centers, Program Projects, environmental research centers, engineering research centers, and other grants and contracts that entail assembling and managing teams of investigators from a number of institutions.
- Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature; and reporting (such as epidemiological studies, clinical trials, and retrospective clinical records studies).
- Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.
- Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
- Projects that are geographically inaccessible to normal departmental administrative services, such as research vessels, radio astronomy projects, and other research field sites that are remote from the campus.
- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols; and multiple project-related investigator coordination and communications.

As stated in the Exhibit, “[t]hese examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples.”

## **SALARY COSTS**

Of the 100 charges in our sample of administrative and clerical salaries, we accepted all 100 charges with a total value of \$21,514. The University generally provided sufficient documentation and support to show that the involved grants qualified as major projects or were able to support unlike circumstances, where the administrative and clerical support being charged directly was beyond the level of support normally required by an academic department.

## **ADMINISTRATIVE COSTS OTHER THAN SALARIES**

Of the 259 charges in our sample of administrative costs other than salaries, we accepted 248 charges with a total value of \$2,026,668. In these instances, the University provided sufficient documentation and support to show that direct charging of the involved costs was justified by the nature and extent of the involved work or other circumstances.

For example, we concluded that direct charging for the costs of copying services was justified on an NIH project entailing the production of recruitment, education, data collection, and consent material for a long-term treatment study involving 60 type-2 diabetics. Similarly, we concluded that postage and express delivery charges were warranted on a number of projects that required mass mailings to program participants or shipments of biological samples.

However, the University did not adequately document or support the other 11 charges in our sample, with a total value of \$2,100. The University adjusted 9 charges during the period of our fieldwork and indicated they would adjust the remaining 2 charges.

## **UNIVERSITY ESTABLISHED ADEQUATE CONTROLS**

The University generally had established adequate controls and ensured consistent compliance with the Federal requirements applicable to charges for administrative and clerical costs contained in 2 CFR pt. 220, Appendix A. Its “Sponsored Program Costing Policy” (SPCP) incorporated text from 2 CFR pt. 220, Appendix A, and its individual colleges, departments, and principal investigators generally interpreted the SPCP correctly and generally complied with the Federal requirements.

As discussed earlier, Federal regulations specify that administrative and clerical costs will generally be treated as F&A, with the only specific exception provided for “major projects” defined in section F.6.b.2 of 2 CFR pt. 220, Appendix A as projects requiring an “extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments.” University policies specifically do not mention the term “major project”, but do recognize “unlike circumstance” as including “major project” requirements and incorporate relevant wording from the regulations.

The Office of Sponsored Programs generally provided adequate scrutiny for charges proposed by colleges, departments, and principal investigators to ensure that those charges fully complied with Federal regulations.

## **RECOMMENDATION**

We recommend that the University:

- credit applicable grants for costs not adequately documented, totaling \$2,100; and
- strengthen its procedures to ensure administrative and clerical costs are correctly treated as either direct or indirect charges.

## **UNIVERSITY COMMENTS**

In written comments on our draft report, the University concurred with our recommendations. The University's comments are included in their entirety in the Appendix to the report.

# **APPENDIX**

APPENDIX: UNIVERSITY COMMENTS



Office of Sponsored Programs

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Columbus, OH 43210-1016  
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November 18, 2011

Ms. Sheri L. Fulcher  
Regional Inspector General for Audit Services  
Office of Audit Services, Region V  
233 N. Michigan Avenue, Suite 1360  
Chicago IL 60601

Re: Report Number: A-05-11-00030

Dear Ms. Fulcher:

This letter is The Ohio State University's (University) response to the recommendations included in your report number A-05-11-00030 dated October 26, 2011.

*DHHS Recommendation # 1*

Credit applicable grants for costs not adequately documented, totaling \$2,100.

*University Response*

The University concurs with this recommendation.

- Credits for all but two of the questioned items had been processed either shortly after the costs were incurred or in the early stages of the audit review. Credits for the two remaining items have been processed.

*DHHS Recommendation # 2*

Strengthen its procedures to ensure administrative and clerical costs are correctly treated as either direct or indirect charges.

*University Response*

The University agrees that there are opportunities to further strengthen its procedures.

- The draft audit report states (page 6) that "With adequate controls and a policy requiring compliance with 2 CFR pt. 220 Appendix A to ensure consistent compliance with federal requirements, the University generally ensured that the administrative and clerical expenses charged as direct costs to grants, contracts and other agreements with HHS components complied with the applicable Federal regulations." The University concurs that its internal controls during the audit period were generally compliant with applicable standards, and were effective in minimizing unallowable direct charging of administrative and clerical costs.

Letter to Ms. Sheri Fulcher  
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- While the auditors acknowledged that our procedures for treating administrative and clerical costs are acceptable and the University believes its procedures are effective in minimizing unallowable direct charging of administrative and clerical costs, we recognize that there can always be improvements. We will continue to review our policies, our monitoring procedures, and our documentation to strengthen compliance in this area. In addition, we will provide periodic guidance to investigators, department staff and sponsored programs office staff on the appropriate treatment of administrative and clerical costs on federally funded awards.

On behalf of The Ohio State University, I would like to thank Mr. Brent Storhaug and his staff for their professionalism and courtesy during the audit process. They made the audit experience positive for all of us.

Thank you for your consideration of our comments. I will be happy to answer any questions you might have.

Sincerely,

Anne JM Moffat

Anne J. M. Moffat  
Executive Director

cc: G. Chatas, Senior Vice President for Business and Finance  
K. Patton, Director, Internal Audit  
G. Russell, Controller  
C. Whitacre, Vice President for Research