

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**SALARY AND NONSALARY COSTS
CLAIMED BY THE UNIVERSITY OF TEXAS
SOUTHWESTERN MEDICAL CENTER
WERE ALLOWABLE**

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



Patricia M. Wheeler
Regional Inspector General

August 2013
A-06-11-00018

Office of Inspector General

<https://oig.hhs.gov>

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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.



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION VI
1100 COMMERCE STREET, ROOM 632
DALLAS, TX 75242

August 29, 2013

Report Number: A-06-11-00018

Mr. Arnim Dontes
Executive Vice President of Business Affairs
University of Texas Southwestern Medical Center
5323 Harry Hines Boulevard
Dallas, Texas 75390-9013

Dear Mr. Dontes:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Salary and Nonsalary Costs Claimed by the University of Texas Southwestern Medical Center Were Allowable*. We will forward a copy of this report to the HHS action official noted below.

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 direct them to the HHS action official. Please refer to report number A-06-11-00018 in all correspondence.

Sincerely,

/Patricia M. Wheeler/
Regional Inspector General
for Audit Services

Enclosure

HHS Action Official:

Ms. Lorraine M. Trexler, CPA, Director
Division of Financial Advisory Services
OAMP, OALM, OD
National Institutes of Health
6011 Executive Boulevard, Room 549-C
Bethesda, MD 20892-7663

INTRODUCTION

The University of Texas Southwestern Medical Center claimed allowable costs for HHS-funded grants, contracts, and other agreements in accordance with Federal regulations and applicable guidelines.

WHY WE DID THIS REVIEW

Because the number of instances in which institutions have inappropriately charged administrative and clerical expenses to Federal grants and contracts has increased, the Office of Inspector General (OIG) is reviewing Universities' claims for these types of expenses. We chose the University of Texas Southwestern Medical Center (the University) because it received more than \$406 million in Federal funds for grants, contracts, and other agreements with organizational components of the Department of Health and Human Services (HHS) during the period October 1, 2008, through September 30, 2010 (fiscal years (FY) 2009 and 2010).¹

OBJECTIVE

Our objective was to determine whether the University claimed costs for HHS-funded grants, contracts, and other agreements in accordance with Federal regulations and applicable guidelines.

BACKGROUND

The University of Texas Southwestern Medical Center

The University is an academic medical center and research institution located in Dallas, Texas. During the period October 1, 2008, through September 30, 2010, the University claimed reimbursement for \$194,434,141 in costs incurred under 1,463 grants, contracts, and other agreements with organizational components of HHS.

Federal Requirements for National Institutes of Health Grantees

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, contracts, and other agreements were allowable under Federal cost principles.² These cost principles apply both to direct costs, costs that are incurred solely for the performance of a particular project, and to facilities and administrative (F&A) costs, indirect costs that are

¹ We requested that the University provide us with a transaction listing of all salary and nonsalary administrative and clerical expenses charged directly to HHS grants, contracts, and other agreements during our audit period. Instead, the University provided all salary and nonsalary expenses charged directly to HHS grants, contracts, and other agreements during our audit period. As a result, we reviewed those expenses.

² 2 CFR part 220 (formerly the Office of Management and Budget Circular A-21), *Cost Principles for Educational Institutions* (the cost principles).

incurred for objectives shared by the project and the institution and which, therefore, cannot readily and specifically be identified with a particular project.³

In addition, the 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 (2 CFR part 220, Appendix A, section C.2).

Each college or university is responsible for ensuring that costs charged to Federal grants, contracts, and other agreements, both direct costs and F&A costs, are allowable under the cost principles (2 CFR part 220, Appendix A, section C.4.d.1).

The National Institutes of Health (NIH) provides additional guidance through the *National Institutes of Health Grants Policy Statement* (Grants Policy Statement). The Grants Policy Statement provides NIH grantees, in a single document, the policy requirements that serve as the terms and conditions of NIH grant awards. The Grants Policy Statement also provides general information and application information and specifies the terms and conditions that apply to particular types of grants, grantees, and activities that differ from, supplement, or elaborate on the standard terms and conditions.⁴

Award Administration

The University's Office of Post Award Administration accepts and administers awards on behalf of the University. The Office of Post Award Administration is responsible for reviewing transactions proposed by the University's colleges and departments; the University's principal investigators ensure that those transactions fully comply with Federal regulations. In addition, principal investigators are responsible for all programmatic and administrative aspects of an award, including the conduct of research or other activity described in an award proposal.

HOW WE CONDUCTED THIS REVIEW

Our audit covered costs claimed for reimbursement for the period October 1, 2008, through September 30, 2010, totaling \$194,434,141 (\$83,850,903 in salary expenditures and \$110,583,238 in nonsalary expenditures). We reviewed a random sample of 100 salary expenditures and a random sample of 109 nonsalary expenditures totaling \$3,128,991 (\$254,079 in salary expenditures and \$2,874,912 in nonsalary expenditures). We limited the audit to grants, contracts, and other agreements between the University and organizational components of HHS (i.e., NIH, the Centers for Disease Control and Prevention (CDC), the Food and Drug Administration (FDA), and the Health Resources and Services Administration (HRSA)).

³ Educational institutions are reimbursed for F&A costs through a rate or rates negotiated with the Federal Government. Institutions with significant numbers of federally funded agreements frequently have multiple F&A rates applicable to different functions, such as research, training, and other institutional activities. The F&A rates comprise two components: a facilities component and an administrative component. For fiscal years that began on or after October 1, 1991, the administrative component is limited to 26 percent of modified total direct costs.

⁴ The majority of our sample expenditures were for NIH awards.

We did not perform an overall assessment of the University's internal control structure. We limited our assessment of internal controls to the University's policies and procedures for charging costs to Federal awards.

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. Appendixes B and C contain the details of our salary and nonsalary statistical sampling methodologies.

RESULTS OF AUDIT

The University claimed \$3,128,991 in allowable costs for HHS-funded grants, contracts, and other agreements in accordance with Federal regulations and applicable guidelines.⁵

⁵ Immaterial errors totaling \$1,272, which included \$810 of direct costs that were included in the total costs reviewed and \$462 of indirect costs that were not included, were resolved during our audit, and the amounts were refunded. Additionally, we determined that the errors were isolated and thus not indicators of systematic control weaknesses in the University's operations.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered costs claimed for reimbursement for the period October 1, 2008, through September 30, 2010, totaling \$194,434,141 (\$83,850,903 in salary expenditures and \$110,583,238 in nonsalary expenditures). We reviewed a random sample of 100 salary expenditures and a random sample of 109 nonsalary expenditures totaling \$3,128,991 (\$254,079 in salary expenditures and \$2,874,912 in nonsalary expenditures). We limited the audit to grants, contracts, and other agreements between the University and organizational components of HHS (i.e., NIH, CDC, FDA, and HRSA).

We did not perform an overall assessment of the University's internal control structure. We limited our assessment of internal controls to the University's policies and procedures for charging costs to Federal awards.

We conducted fieldwork at the University's office in Dallas, Texas.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidelines;
- reviewed grant announcements, grant applications, and notices of grant awards;
- held discussions with University officials in the Office of Post Award Administration and the Department of Internal Audit;
- reviewed the University's policies and procedures for identifying and accounting for costs claimed directly to Federal grants, contracts, and other agreements;
- reviewed the University's Cost Accounting Standards Board Disclosure Statement (DS-2);⁶
- obtained a list of transactions from the University's accounting records of salary and nonsalary expenditures charged directly to HHS-funded grants, contracts, and other agreements during our audit period;
- evaluated the documentation in the University's project files for the sample expenditures charged directly to HHS-funded grants, contracts, and other agreements to determine

⁶ Educational institutions that receive \$25 million or more for their combined sponsored agreements are required to disclose their cost accounting practices by filing a DS-2. The University submitted a DS-2 to the HHS Division of Cost Allocation.

whether the charges were allowable in accordance with Federal cost principles and applicable guidelines; and

- discussed the results of our review with University officials.

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 B: SALARY STATISTICAL SAMPLING METHODOLOGY

POPULATION

The population consisted of all salary expenses charged directly to HHS grants and contracts for FYs 2009 and 2010.

SAMPLING FRAME

The University provided us with two spreadsheets of transactions for all salary expenses charged directly to HHS grants and contracts for FYs 2009 and 2010. We imported the spreadsheets into a database as one table, which contained 47,265 transactions. We sorted the transactions by salary amount and removed all negative amounts and amounts less than \$100, for a total of 2,825 transactions. As a result, the sampling frame included 44,440 transactions totaling \$87,263,561.

SAMPLE UNIT

The sample unit was a transaction.

SAMPLE DESIGN

We used a stratified random sample containing four strata. We divided the sampling frame based on the following transaction amounts:

Strata	Transaction Amount Range	Number of Transactions	Total Dollars
1	Greater than \$10,000.00	7	\$178,230.38
2	\$3,000 through \$9,999.99	10,369	38,067,275.36
3	\$1,500 through \$2,999.99	17,344	37,226,752.63
4	\$100 through \$1,499.99	16,720	11,791,302.89
Total		44,440	\$87,263,561.26

SAMPLE SIZE

We selected a sample of 100 transactions. The sample size by stratum was:

Strata	Number of Sample Items
1	7
2	31
3	31
4	31
	100

SOURCE OF RANDOM NUMBERS

We used OIG, Office of Audit Services (OAS), statistical software to generate the random numbers.

METHOD OF SELECTING SAMPLE UNITS

We consecutively numbered the sample items in each stratum. After generating the numbers for each stratum, we selected the corresponding frame items. For stratum 1, we selected all 7 transactions.

APPENDIX C: NONSALARY STATISTICAL SAMPLING METHODOLOGY

POPULATION

The population consisted of all nonsalary expenses charged directly to HHS grants and contracts for FYs 2009 and 2010. The population did not include subrecipient and subcontract transactions.

SAMPLING FRAME

The University provided us with a spreadsheet and a database with three tables of all nonsalary expense transactions charged to HHS grants and contracts for FYs 2009 and 2010. We imported the spreadsheet and database tables into a new database as one table, containing 286,898 transactions.

We identified and removed 71 duplicated transactions, which left 286,827 transactions remaining in the table. We then sorted the transactions and removed 42,874 transactions that had negative amounts and amounts less than or equal to \$10, which left 243,953 transactions remaining in the table.

Finally, we removed all transactions with an object code of 440, 483, or 498 (subrecipient and subcontract transactions), for a total of 5,535 transactions.⁷ As a result, the sampling frame had 238,418 transactions totaling \$82,348,309.60.

SAMPLE UNIT

The sample unit was a transaction.

SAMPLE DESIGN

We used a stratified random sample containing three strata. We divided the sampling frame based on the following transaction amounts:

Strata	Transaction Amount Range	Number of Transactions	Total Dollars
1	Greater than \$200,000.00	9	\$2,948,906.00
2	\$1,000.01 through \$200,000.00	13,161	44,589,888.08
3	\$10.01 through \$1,000.00	225,248	34,809,515.52
Total		238,418	\$82,348,309.60

⁷ We removed all subrecipient and subcontract transactions because a single transaction can consist of multiple invoices that include multiple lines. These lines include transactions for salaries, fringe benefits, materials, supplies, equipment, travel, overhead, indirect costs, and other items that would require an inordinate amount of time to review.

SAMPLE SIZE

We selected a sample of 109 transactions. The sample size by stratum was:

Strata	Number of Sample Items
1	9
2	50
3	50
	109

SOURCE OF RANDOM NUMBERS

We used OIG/OAS statistical software to generate the random numbers.

METHOD OF SELECTING SAMPLE UNITS

We consecutively numbered the sample items in each stratum. After generating the numbers for each stratum, we selected the corresponding frame items. For stratum 1, we selected all 9 transactions.