Why OIG Did This Audit
Nonprofit organizations use negotiated cost rates to ensure that Federal awards receive proper allocations of indirect costs, which are costs that benefit more than one activity. Within the HHS Program Support Center (PSC), Cost Allocation Services (CAS) is responsible for negotiating and approving indirect cost rates.

Previous Government Accountability Office and OIG reports identified deficiencies related to internal controls for setting indirect cost rates, concerns about CAS’s approval of incorrect indirect cost rates, and inclusion of unallowable salaries in indirect cost proposals.

Our objective was to assess CAS’s rate-setting process and determine whether it complied with Federal regulations when negotiating and approving indirect cost rates for nonprofit organizations.

How OIG Did This Audit
CAS officials provided us with a list of 1,455 indirect cost rates negotiated or renegotiated from January 1 through December 31, 2019. We removed 242 indirect cost rates for hospitals because they have different Federal criteria for determining their indirect cost rates. From the remaining 1,213 indirect cost rates, we selected a judgmental sample of 19 indirect cost rates to assess CAS’s indirect cost rate-setting process and determine compliance with Federal regulations.

Cost Allocation Services Needs To Update Its Indirect Cost Rate-Setting Guidance

What OIG Found
We found that CAS’s indirect cost rate-setting process for nonprofit organizations did not always comply with Federal regulations and its own policies. Specifically: (1) CAS did not ensure compliance with Federal regulations when negotiating indirect cost rates, (2) CAS did not always follow its Review Guide, (3) CAS did not always follow its internal guidance or negotiate rates in a timely manner, and (4) indirect cost rate proposals included potentially unallowable compensation costs. These errors occurred because CAS had not updated the Review Guide since 2003 to ensure that it reflected Federal requirements and its internal guidance. According to CAS officials, CAS also faced issues with the heavy workload associated with negotiating indirect cost rates and has been unable to fill positions for negotiators and branch chiefs lost through attrition.

What OIG Recommends and CAS Comments
We recommend that CAS update its Review Guide to include applicable Federal regulations and CAS internal policies and procedures and provide training to its branch chiefs and negotiators to ensure its indirect cost rate-setting process conforms with Federal regulations. Additionally, CAS should review its staffing levels and determine whether they are sufficient to meet the agency’s objectives and seek clarification on whether the executive compensation policy complies with Federal law and governmentwide policy. See the report for more detailed recommendations.

In written comments on our draft report, CAS concurred with four recommendations and did not concur with two recommendations. In response to our recommendations, CAS stated that it has formed a work group and has started the process of updating the Review Guide to conform with applicable Federal regulations and its internal policies and procedures, that it will update checklists to include all federally required documents, and that it plans to implement a process for ensuring all required forms and signatures are included in the proposal submission. CAS stated that our characterization of the Non-Profit Review Guide is a factual error. Additionally, CAS disagreed with recommendations regarding CAS reviewing its staffing levels and seeking clarification on the policy of including executive compensation above the Level II statutory cap in the indirect cost pool. We maintain that our findings and recommendations are valid and our responses are detailed in the report.

The full report can be found at https://oig.hhs.gov/oas/reports/region6/6200100.asp.