

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MOST OF THE COSTS CLAIMED BY
WASHINGTON UNIVERSITY IN ST.
LOUIS UNDER AMERICAN RECOVERY
AND REINVESTMENT ACT OF 2009
GRANT NUMBERS
2R01HD036904-06A2,
3R01HD036904-07S1, AND
5R01HD036904-07 WERE ALLOWABLE**

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



**Patrick J. Cogley
Regional Inspector General**

October 2012
A-07-12-02778

Office of Inspector General

<https://oig.hhs.gov/>

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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

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted on February 17, 2009, provided \$8.2 billion to the Office of the Director of the National Institutes of Health (NIH) to help stimulate the economy through the support and advancement of scientific research. Of the \$8.2 billion, the Recovery Act transferred \$7.4 billion to the NIH Institutes and Centers and to the Common Fund. In addition, the Recovery Act provided \$400 million for comparative effectiveness research.

Recovery Act Awards to Washington University in St. Louis

Washington University in St. Louis (the grantee), founded in 1853, is a medium-sized, independent university, located in St. Louis, Missouri. NIH awarded the grantee three related Recovery Act grants (an original, a subsequent award, and a supplemental award) totaling \$4.9 million for research to test the efficacy and the appropriate dose of an innovative behavioral treatment to help overweight children successfully maintain weight loss over the long term, and to identify environmental moderators of pediatric weight loss maintenance. The grant period was September 30, 2009, through August 31, 2011; the grantee has since received a third-year, no-cost extension, and consequently has not spent all of the grant funds. As of August 31, 2011, the grantee had claimed \$4,062,022 under the NIH grants.

OBJECTIVE

Our objective was to determine whether costs claimed by the grantee were allowable under applicable Federal regulations and the terms of the grants.

SUMMARY OF FINDINGS

Certain costs claimed by the grantee that totaled \$737 were not allowable under applicable Federal regulations and the terms of the grants. Specifically, the grantee claimed unallowable costs of:

- \$396 associated with unallowable costs for food that was served during a meeting,
- \$246 for three telephone charges that were unallowable because they were charged to the grants as direct costs instead of as indirect costs,
- \$76 associated with a hotel room upgrade that was unallowable, and
- \$19 for two alcohol charges that were unallowable.

The grantee removed all of these costs from its schedule of claimed costs after we had identified these errors during our fieldwork.

While internal controls were adequate to ensure that the majority of costs claimed were allowable, the grantee should strengthen its internal controls to ensure that it claims all costs in accordance with applicable Federal regulations and the terms of the grants.

RECOMMENDATIONS

We recommend that NIH:

- ensure that the grantee provides supplemental training to department-level staff on grant costs that are allowable under Federal regulations, the terms of the grants, and grantee policies, and
- ensure that the grantee strengthens its internal controls regarding the claiming of costs charged to federally sponsored projects.

GRANTEE COMMENTS

In written comments on our draft report, the grantee agreed with our first recommendation and described corrective actions that it planned to implement. The grantee also described planned corrective action regarding our second recommendation, but added that in its judgment, the internal control structure within the grantee's financial management system is "sufficient, effective and compliant with federal costing principles." The grantee's written response included some technical comments regarding this report's title and some of its language.

The grantee's comments appear in their entirety as Appendix A.

NATIONAL INSTITUTES OF HEALTH COMMENTS

In written comments on our draft report, NIH concurred with both of our findings and the corresponding recommendations.

NIH's comments appear in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted on February 17, 2009, provided \$8.2 billion to the Office of the Director of the National Institutes of Health (NIH) to help stimulate the economy through the support and advancement of scientific research. Of the \$8.2 billion, the Recovery Act transferred \$7.4 billion to the NIH Institutes and Centers and to the Common Fund. In addition, the Recovery Act provided \$400 million for comparative effectiveness research.

Recovery Act funds were used to award grants and cooperative agreements to research entities including nonprofit and for-profit organizations, universities, hospitals, research foundations, governments and their agencies, and occasionally to individuals.

Federal Requirements for National Institutes of Health Grantees

Federal regulations at 45 CFR part 74 provide for the uniform administrative requirements for awards and sub-awards to institutions of higher education and other nonprofit and commercial organizations. Pursuant to 45 CFR § 74.27, the allowability of costs incurred by institutions of higher education are determined in accordance with the cost principles contained in 2 CFR pt. 220 (Office of Management and Budget (OMB) Circular A-21), *Cost Principles for Educational Institutions*.

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 provides general information and application information and specifies the terms and conditions, applicable to particular types of grants, grantees, and activities, that differ from, supplement, or elaborate on the standard terms and conditions.

Recovery Act Awards to Washington University in St. Louis

Washington University in St. Louis (the grantee), founded in 1853, is a medium-sized, independent university, located in St. Louis, Missouri. NIH awarded the grantee three related Recovery Act grants (an original, a subsequent award, and a supplemental award) totaling \$4.9 million for research to test the efficacy and the appropriate dose of an innovative behavioral treatment to help overweight children successfully maintain weight loss over the long term, and to identify environmental moderators of pediatric weight loss maintenance. The grant period was September 30, 2009, through August 31, 2011; the grantee has since received a third-year, no-cost extension, and consequently has not spent all of the grant funds. As of August 31, 2011, the grantee had claimed \$4,062,022 under the NIH grants.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether costs claimed by the grantee were allowable under applicable Federal regulations and the terms of the grants.

Scope

We limited our review to costs the grantee claimed for the grant period of September 30, 2009, through August 31, 2011, for NIH grants numbered 2R01HD036904-06A2, 3R01HD036904-07S1, and 5R01HD036904-07. During the review period, the grantee claimed \$4,062,022. We reviewed \$2,799,599 of the direct and indirect costs claimed by the grantee as of August 31, 2011.

We did not perform an overall assessment of the grantee's internal control structure. Rather, we limited our evaluation of the grantee's accounting system to obtaining an understanding of internal control as it related to our specific audit objective.

We performed fieldwork at the grantee's administrative office in St. Louis, Missouri, in December 2011.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and other guidance;
- reviewed grant announcements, grant applications, and notices of grant awards;
- interviewed grantee officials to gain an understanding of the grantee's accounting system and internal controls for claiming costs under the NIH grants;
- identified expended funds in the grantee's accounting records as of August 31, 2011;
- summarized costs by cost category from expenditure reports;
- recalculated amounts on the August 31, 2011, expenditure report to verify mathematical accuracy;
- compared budgeted to actual expenditures;
- reviewed judgmentally selected costs claimed under the grants for allowability, allocability, and reasonableness; and
- discussed the results of our review with grantee officials on April 27, 2012.

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 RECOMMENDATIONS

Certain costs claimed by the grantee that totaled \$737 were not allowable under applicable Federal regulations and the terms of the grants. Specifically, the grantee claimed unallowable costs of:

- \$396 associated with unallowable costs for food that was served during a meeting,
- \$246 for three telephone charges that were unallowable because they were charged to the grants as direct costs instead of as indirect costs,
- \$76 associated with a hotel room upgrade that was unallowable, and
- \$19 for two alcohol charges that were unallowable.

The grantee removed all of these costs from its schedule of claimed costs after we had identified these errors during our fieldwork.

While internal controls were adequate to ensure that the majority of costs claimed were allowable, the grantee should strengthen its internal controls to ensure that it claims all costs in accordance with applicable Federal regulations and the terms of the grants.

UNALLOWABLE COSTS

Unallowable Costs for Food Served During a Meeting

2 CFR pt. 220, Appendix A, section J.32, states: “Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, speakers’ fees, and other items incidental to such meetings or conferences. But see section J.17 of this Appendix, Entertainment costs.”

2 CFR pt. 220, Appendix A, section J.17, states: “Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.”

The grantee claimed unallowable costs of \$396 for food that was served during a meeting. Costs are allowable for food served during a meeting that has a primary purpose to disseminate technical information. However, for this \$396 food charge, the grantee did not provide adequate

documentation to support that the intended purpose of the meeting during which the food was served was to disseminate technical information about the grants. Additionally, the grantee's budget object code description for this food charge transaction stated that it was a "social/entertainment" reimbursement.

Federal regulations specify that food served during a meeting is not allowable if the meeting does not have the primary purpose of disseminating grant-related technical information or if the food is served for entertainment purposes. In this case, both of these conditions were present. After we had identified these errors during our fieldwork, the grantee removed this charge from its schedule of claimed costs.

Unallowable Telephone Charges

2 CFR pt. 220, Appendix A, section F.6.b.(3), states: "Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A [Facilities and Administration] costs."

The grantee charged \$246 for three telephone charges that normally are F&A costs pursuant to Federal regulations. F&A costs are treated as indirect costs and, as such, generally cannot be claimed as direct costs. Additionally, the grantee's budget object code descriptions for each of these three transactions stated that they were "... not allowed on government grants or contracts..." After we had identified these errors during our fieldwork, the grantee removed these charges from its schedule of claimed costs.

Unallowable Hotel Room Upgrade Charge

2 CFR pt. 220, Appendix A, section J.53.b, states:

Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the institution in its regular operations as the result of the institution's written travel policy.

The grantee's *Policy Statement for Travel Advances & Travel Expenses* states: "Costs associated with upgrades in accommodations will generally not be reimbursed unless standard accommodations are not available."

The grantee charged \$76 for a hotel room upgrade but did not provide documentation to show that standard accommodations were not available. As such, this charge was unallowable under the grantee's travel policy and thus also unallowable pursuant to Federal regulations. After we had identified this error during our fieldwork, the grantee removed this charge from its schedule of claimed costs.

Unallowable Alcohol Charges

2 CFR pt. 220, Appendix A, section J.3, states: “Costs of alcoholic beverages are unallowable.”

The grantee charged \$19 for alcohol costs, in two separate transactions, that were unallowable pursuant to Federal regulations. After we had identified these errors during our fieldwork, the grantee removed these charges from its schedule of claimed costs.

INTERNAL CONTROLS NEED STRENGTHENING

While internal controls were adequate to ensure that the majority of costs claimed were allowable, the grantee should strengthen its internal controls to ensure that it claims all costs in accordance with applicable Federal regulations and the terms of the grants.

The grantee’s controls specified that proposed grant-related transactions would first be reviewed, approved or denied, and then (in the case of approvals) further processed by the department that initiated the transaction. After clearing the appropriate department, the proposed grant-related transaction would then be additionally reviewed, approved or denied, and then further processed by the grantee’s office of Sponsored Projects Accounting. The errors discussed above had cleared these review, approval, and processing steps, which indicates that the grantee’s internal controls were not always adequate to ensure that all of its claimed grant-related costs were allowable pursuant to Federal regulations and the terms of the grants.

RECOMMENDATIONS

We recommend that NIH:

- ensure that the grantee provides supplemental training to department-level staff on grant costs that are allowable under Federal regulations, the terms of the grants, and grantee policies, and
- ensure that the grantee strengthens its internal controls regarding the claiming of costs charged to federally sponsored projects.

GRANTEE COMMENTS

In written comments on our draft report, the grantee agreed with our first recommendation and described corrective actions that it planned to implement. The grantee also described planned corrective action regarding our second recommendation, but added that in its judgment, the internal control structure within the grantee’s financial management system is “sufficient, effective and compliant with federal costing principles.” The grantee’s written response included some technical comments regarding this report’s title and some of its language.

The grantee’s comments appear in their entirety as Appendix A.

NATIONAL INSTITUTES OF HEALTH COMMENTS

In written comments on our draft report, NIH concurred with both of our findings and the corresponding recommendations.

NIH's comments appear in their entirety as Appendix B.

APPENDIXES

APPENDIX A: GRANTEE COMMENTS



July 3, 2012

Patrick J. Cogley
Office of the Inspector General
Department of Health and Human Services
Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

RE: Report Number A-07-12-02778

Dear Mr. Cogley:

Washington University in St. Louis (the University) appreciates the opportunity to respond to the DRAFT audit report for American Recovery and Reinvestment Act of 2009 (ARRA) Award Numbers 2R01HD036904-06A2, 5R01HD036904-07S1 & 3R01HD036904-07S1. The University has dedicated significant resources over the years towards the proper stewardship, financial management and compliance over all federally funded sponsored projects. As noted in your report, the amounts claimed and tested during your audit were deemed reasonable, allocable and allowable under OMB Circular A-21 and the National Institutes of Health's Grants Policy Manual, with the exception of several small amounts.

During the process of preparing documentation for the on-campus fieldwork period, the University identified and questioned the appropriate nature of the items described in the report, and then pursued the matter. The related documentation was reviewed by Management and it was subsequently determined that these costs should be transferred to other funding sources within the academic department. The information related to these transactions was provided to the audit team prior to the completion of their fieldwork.

We would like to note our appreciation to the audit team for their considered and professional attention to all relevant matters during the audit. The University offers the following response to the Recommendations within the report.

Recommendation #1:

That the grantee provide supplemental training to department-level staff on grant costs that are allowable under Federal regulations, the terms of the grants, and grantee policies.

University Response:

The University agrees that supplemental training regarding the applicable costs policies should be provided. Accordingly, Sponsored Projects Accounting will schedule and provide financial management training to the applicable academic and central area personnel.

Report Number: A-07-12-02778
Response to Audit, cont.
Page 2

Recommendation #2:

That the grantee strengthen its internal controls regarding the claiming of costs charged to federally sponsored projects.

University Response:

As a means of strengthening the overall internal control structure for sponsored funds, the University will communicate the importance of proper costing and financial management requirements to our research community and departmental business offices via quarterly research administrator forums, our financial management educational series and other on-line resources.

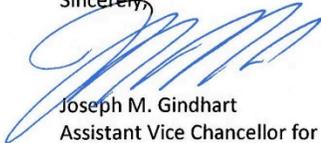
The on-line transaction review and approval system that the University maintains is designed to meet the needs of a very diverse and decentralized academic environment. Transactions are routed for various on-line reviews and approvals within the academic units, departments, schools and central areas based upon transaction type and dollar amount. The University maintains that the internal control structure within our financial management system is sufficient, effective and compliant with federal costing principles.

We also recognize that the transactions noted in this report, although minor in dollar amount, were not allocated in the appropriate manner. In three instances, the telephone transactions fell below the standard threshold amount that would have triggered a secondary review and approval by Sponsored Projects Accounting.

The University would also like to request some revised wording in the DRAFT report. This information is provided in **Attachment A** of this document.

If you require any additional information regarding our responses, please contact me directly at 314-935-7089 or jgindhart@wustl.edu. Again, thank you for your cooperation throughout this audit.

Sincerely,



Joseph M. Gindhart
Assistant Vice Chancellor for Finance &
Director, Sponsored Projects Accounting

C: Barbara A. Feiner
Gail Peters
James Korn

Report Number: A-07-12-02778
Response to Audit, cont.

Attachment A

Washington University has reviewed the DRAFT audit report for ARRA Awards 2R01HD036904-06A2, 5R01HD036904-07S1 & 3R01HD036904-07S1 and we would like to request some revisions to certain sections. In our opinion, the revised wording more clearly describes the scope, fieldwork and results of the audit.

Report Section - Title of Report

Washington University in St. Louis Claimed ~~Costs Audit Some Unallowable Costs Under American Recovery and Reinvestment Act of 2009 Grant Numbers...~~

Report Section – Findings and Recommendations

The grantee removed all of these costs from its schedule of claimed costs ~~after we had identified these errors during our fieldwork~~ *prior to the completion of our field work.*

Report Section – Unallowable Costs for Food Served During a Meeting

Federal regulations specify that food served during a meeting is not allowable if the meeting does not have the primary purpose of disseminating grant-related technical information or if the food is served for entertainment purposes. In this case, both of these conditions were present. ~~After we had identified these errors during our fieldwork, the grantee removed this charge from its schedule of claimed costs.~~ *The grantee removed this charge from its schedule of claimed costs prior to the completion of our fieldwork.*

Report Section - Unallowable Telephone Charges

The grantee charged \$246 for three telephone charges that normally are F&A costs pursuant to Federal regulations. F&A costs are treated as indirect costs and, as such, generally cannot be claimed as direct costs. Additionally, the grantee's budget object code descriptions for each of these three transactions stated that they were "... not allowed on government grants or contracts" ~~After we had identified these errors during our fieldwork, the grantee removed these charges from its schedule of claimed costs.~~ *The grantee removed these charges from its schedule of claimed costs prior to the completion of our fieldwork.*

Report Section - Unallowable Hotel Room Upgrade Charge

The grantee charged \$76 for a hotel room upgrade but did not provide documentation to show that standard accommodations were not available. As such, this charge was unallowable under the grantee's travel policy and thus also unallowable pursuant to Federal regulations. ~~After we had identified this error during our fieldwork, the grantee removed this charge from its schedule of claimed costs.~~ *The grantee removed this charge from its schedule of claimed costs prior to the completion of our fieldwork.*

Report Number: A-07-12-02778
Response to Audit, cont.

Report Section - Unallowable Alcohol Charges

The grantee charged \$19 for alcohol costs, in two separate transactions, that were unallowable pursuant to Federal regulations. ~~After we had identified these errors during our fieldwork, the grantee removed these charges from its schedule of claimed costs.~~ *The grantee removed these charges from its schedule of claimed costs prior to the completion of our fieldwork.*

APPENDIX B: NATIONAL INSTITUTES OF HEALTH COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

National Institutes of Health
Bethesda, Maryland 20892

TO: Patrick J. Cogley
Regional Inspector General for Audit Services, Region VII

FROM: Director, NIH

DATE: **SEP 14 2012**

SUBJECT: General and Technical Comments on Office of Inspector General (OIG) Draft Report, *Most of the Costs Claimed by Washington University in St. Louis Under American Recovery and Reinvestment Act of 2009 Grant Numbers 2R01HD036904-06A2, 3R01HD036904-07S1, and 5R01HD036904-07 Were Allowable (A-07-12-02778)*

Attached are the National Institutes of Health's agency comments on the OIG draft report, *Most of the Costs Claimed by Washington University in St. Louis Under American Recovery and Reinvestment Act of 2009 Grant Numbers 2R01HD036904-06A2, 3R01HD036904-07S1, and 5R01HD036904-07 Were Allowable (A-07-12-02778)*.

We appreciate the opportunity to review and comment on the draft report. Should you have questions or concerns regarding our comments, please contact Meredith Stein in the Office of Management Assessment at 301-402-8482.

A handwritten signature in black ink, appearing to read "Francis S. Collins".

Francis S. Collins, M.D., Ph.D.

Attachments:
NIH General Comments on OIG Draft Report A-07-12-02778
NIH Technical Comments on OIG Draft Report A-07-12-02778

**GENERAL COMMENTS OF THE NATIONAL INSTITUTES OF HEALTH ON
OFFICE OF INSPECTOR GENERAL (OIG) DRAFT REPORT ENTITLED, *MOST OF
THE COSTS CLAIMED BY WASHINGTON UNIVERSITY IN ST. LOUIS UNDER
AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 GRANT NUMBERS
2R01HD036904-06A2, 3R01HD036904-07S1, AND 5R01HD036904-07 WERE
ALLOWABLE (A-07-12-02778)***

The National Institutes of Health (NIH) appreciates the review conducted by OIG and the opportunity to provide clarifications on this draft report. We respectfully submit the following general comments. Technical comments are included as a separate attachment.

OIG Finding 1: The OIG recommends that NIH ensure that the grantee provides supplemental training to department-level staff on grant costs that are allowable under Federal regulations, the terms of the grants and grantee policies (page 5).

The NIH concurs with the OIG's finding and corresponding recommendation to ensure that the grantee provides supplemental training to department-level staff on grant costs that are allowable under federal regulations, the terms of the grants, and grantee policies.

The NIH intends to work with the grantee to ensure this recommendation is implemented as soon as possible.

OIG Finding 2: The OIG recommends that NIH ensure that the grantee strengthens its internal controls regarding the claiming of costs charged to federally sponsored projects (page 5).

The NIH concurs with the OIG's finding and corresponding recommendation to ensure that the grantee strengthens its internal controls regarding the claiming of costs charged to federally sponsored projects.

The NIH intends to work with the grantee to ensure this recommendation is implemented as soon as possible.

**TECHNICAL COMMENTS OF THE NATIONAL INSTITUTES OF HEALTH ON
OFFICE OF INSPECTOR GENERAL (OIG) DRAFT REPORT ENTITLED, MOST OF
THE COSTS CLAIMED BY WASHINGTON UNIVERSITY IN ST. LOUIS UNDER
AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 GRANT NUMBERS
2R01HD036904-06A2, 3R01HD036904-07S1, AND 5R01HD036904-07 WERE
ALLOWABLE (A-07-12-02778)**

The National Institutes of Health (NIH) appreciates the review conducted by the OIG and the opportunity to provide comments on this Draft Report. We respectfully submit the following technical comments. General comments are included as a separate attachment.

The NIH requests that the Action Official for this report be designated as:

Meredith Stein
Director, Division of Risk Management & Audit Liaison
Office of Management Assessment
Office of Management
National Institutes of Health (NIH)

We request that Ms. Stein be designated as the Action Official due to the nature of the findings. Full resolution of the recommendations may require working across the agency, which this Action Official has the authority and flexibility to carry out.