



MAR 10 2008

Region IX
Office of Audit Services
90 - 7th Street, Suite 3-650
San Francisco, CA 94103

Report Number: A-09-07-00073

Mr. Eric Vermillion
Associate Vice Chancellor – Finance
3333 California Street, Laurel Heights Suite 325
University of California, San Francisco
San Francisco, California 94143-0838

Dear Mr. Vermillion:

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 University of California, San Francisco, for the Period July 1, 2004, Through June 30, 2006.” We will forward a copy of this report to the HHS action official noted below.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after this report is issued, it will be posted on the Internet at <http://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-09-07-00073 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosure

HHS Action Official:

Chief, Special Reviews Branch
Division of Financial Advisory Services
Office of Acquisition Management and Policy
National Institutes of Health
6100 Executive Blvd., Room 6B05
Rockville, Maryland 20892

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ADMINISTRATIVE
AND CLERICAL COSTS AT THE
UNIVERSITY OF CALIFORNIA,
SAN FRANCISCO, FOR THE
PERIOD JULY 1, 2004, THROUGH
JUNE 30, 2006**



Daniel R. Levinson
Inspector General

March 2008
A-09-07-00073

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides all 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.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ADMINISTRATIVE
AND CLERICAL COSTS AT THE
UNIVERSITY OF CALIFORNIA,
SAN FRANCISCO, FOR THE
PERIOD JULY 1, 2004, THROUGH
JUNE 30, 2006**



Daniel R. Levinson
Inspector General

March 2008
A-09-07-00073

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

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 University of California, San Francisco (the University) is a public institution located in San Francisco, California. During the period July 1, 2004, through June 30, 2006, the University claimed reimbursement for \$635,165,410 of costs incurred on 2,153 grants, contracts, and other agreements with the National Institutes of Health (NIH).

In accepting grants, contracts, and other agreements awarded by NIH, 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 the cost principles established in Office of Management and Budget Circular A-21 (the Circular). These cost principles require that, to be allowable, costs must be reasonable, be allocable, be given consistent treatment through the application of generally accepted accounting principles, and conform to any mandated exclusions or limitations.

One limitation is set forth in section F.6.b of the Circular. 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).

OBJECTIVE

Our objective was to determine whether the University claimed reimbursement for administrative and clerical expenses as direct costs to NIH grants, contracts, and other agreements in accordance with applicable Federal regulations.

RESULTS OF AUDIT

The University substantially complied with Federal regulations for claiming reimbursement for administrative and clerical expenses. The University made minor clerical errors in charging costs. However, University officials stated that the errors have been corrected. Consequently, our report contains no recommendations.

INTRODUCTION

BACKGROUND

University of California, San Francisco

The University of California, San Francisco (the University) is a public institution located in San Francisco, California. During the period July 1, 2004, through June 30, 2006, the University claimed reimbursement for \$635,165,410 of costs incurred on 2,153 grants, contracts, and other agreements with the National Institutes of Health (NIH).

Cost Principles

In accepting grants, contracts, and other agreements awarded by NIH, 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 the cost principles established in Office of Management and Budget Circular A-21 (the Circular). These cost principles require that, to be allowable, costs must be reasonable, be allocable, be given consistent treatment through the application of generally accepted accounting principles, and conform to any mandated exclusions or limitations.

These cost principles apply both to direct costs, the expenses that are incurred solely for the performance of a particular project or projects, and to Facilities and Administrative (F&A) costs, the indirect expenses that are incurred for common or joint objectives of the institution and which, therefore, cannot be readily and specifically identified with a particular project or projects.¹ In accordance with section C.4.d.1 of the Circular, 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 those cost principles.

One limitation is set forth in section F.6.b of the Circular. 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 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).

¹Educational 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, or other institutional activities. The F&A rates are made up of two components: a facilities component and an administrative component. For fiscal years that begin on or after October 1, 1991, the administrative component is limited to 26 percent of modified total direct costs.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the University claimed reimbursement for administrative and clerical expenses as direct costs to NIH grants, contracts, and other agreements in accordance with applicable Federal regulations.

Scope

Our audit covered \$635,165,410 of costs claimed for reimbursement from July 1, 2004, through June 30, 2006. We limited the audit to grants, contracts, and other agreements between the University and NIH. We did not evaluate charges to the University's agreements with other Federal departments and agencies.

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 conducted our fieldwork from April through August 2007 at one of the University's offices in San Francisco, California.

Methodology

To accomplish our objective, we:

- held discussions with University officials;
- 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);²
- identified object class codes assigned to administrative and clerical expenses in the University's chart of accounts;
- obtained an extract of transactions from the accounting records involving administrative and clerical expenses charged to NIH-funded grants, contracts, and other agreements; and
- selected and tested statistical samples of 195 administrative and clerical salary expenditures and 114 other administrative and clerical expenditures charged directly to NIH-funded grants, contracts, and other agreements to determine whether the charges were allowable in accordance with cost principles.

²Educational institutions that receive Federal funding for grants, contracts, and other agreements totaling \$25 million or more are required to disclose their cost accounting practices by filing a disclosure statement (the DS-2). The University submitted a DS-2 to the Department of Health and Human Services, Division of Cost Allocation.

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.

RESULTS OF AUDIT

Based on our two samples, we found that the University substantially complied with Federal regulations for claiming reimbursement for administrative and clerical expenses. The University made minor clerical errors in charging costs. However, University officials stated that the errors have been corrected. Consequently, our report contains no recommendations.