

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MOST OF THE COSTS CLAIMED BY
IOWA STATE UNIVERSITY
UNDER AMERICAN RECOVERY AND
REINVESTMENT ACT OF 2009
GRANT NUMBERS 1RC2DA028879-01
AND 5RC2DA028879-02
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

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Office of Inspector General

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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 Iowa State University

Iowa State University (the grantee), founded in 1858, is a land grant research institution located in Ames, Iowa. NIH awarded the grantee two related Recovery Act grants (an original and a subsequent award) totaling \$2.7 million for research to address the lack, across public education systems, of a well-integrated infrastructure to support a delivery system designed to reduce risky youth behaviors, enhance positive youth development, and strengthen families. The original 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 \$1,673,593 under the NIH grants.

Service Centers at the Grantee Level: Specialized Service Facilities and Recharge Centers

A service center is a business unit within the grantee that can provide goods and/or services either to other entities within the grantee organization or to external customers. Fees are charged for those goods and/or services and can be provided on either a one-time or a recurring basis. Service centers at universities can provide a multitude of goods and/or services solely to elements within the institution, either to or in support of sponsored projects or external customers.

Two types of service centers at universities are “specialized service facilities” and “recharge centers.” Specialized service facilities are service centers with annual budgets generally greater than \$1,000,000. They provide highly complex or specialized services involving such equipment as wind tunnels, reactors, and electron microscopes. Recharge centers are another type of service center, but with annual budgets generally under \$1,000,000. They are not considered specialized because their services and the equipment they use are not highly complex. Recharge centers provide such services as photocopying and laboratory glass-washing.

At the time of our review, the grantee had over 700 service centers in operation and charged the costs from two service centers to the NIH grants we reviewed.

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

Most of the costs claimed by the grantee were allowable under applicable Federal regulations and the terms of the grants. However, certain costs claimed by the grantee that involved service centers and that totaled \$3,487 were not allowable. Specifically:

- The grantee claimed \$2,535 in unallowable direct and indirect costs associated with 18 hours of employee time for which the grantee could provide no supporting documentation and for which the grantee made an error in calculations. The grantee adjusted the \$2,535 during our fieldwork.
- The grantee also claimed \$952 in unallowable direct and indirect costs associated with 38 hours of employee time that were dedicated to training and administrative functions. Because employee hours dedicated to these functions are generally unallowable as direct costs, the grantee incorrectly billed for \$643 in direct costs as well as associated indirect costs of \$309 which were also incorrectly charged and claimed.

We are setting aside, for adjudication by NIH, costs totaling \$118,357 for which we are unable to reach a conclusion because some of the data that we required to determine the indirect cost rates for the two service centers involved forecasted and actual costs that were outside our audit period.

The grantee claimed unallowable costs and incorrectly calculated its rate adjustments because it did not have effective oversight to ensure compliance with Federal requirements. Furthermore, the grantee did not have a formal written policy describing the guidelines that it used to differentiate its service center types.

RECOMMENDATIONS

We recommend that NIH:

- require the grantee to refund \$952 in unallowable costs related to NIH grants 1RC2DA028879-01 and 5RC2DA028879-02;
- require the grantee to develop and implement internal controls designed to ensure that the calculation of service center indirect cost rates is in accordance with Federal requirements;
- work with the U.S. Department of Health and Human Services, Division of Cost Allocation (DCA), and the grantee to determine both service centers' correct indirect cost

rates for the grantee's 2010 and 2011 fiscal years and resolve the allowability of \$118,357; and

- ensure that the grantee develops and implements a formal written policy that differentiates service center types.

GRANTEE COMMENTS

In written comments on our draft report, the grantee described corrective actions that it implemented or planned to implement in response to three of our four recommendations.

Regarding the \$952 in unallowable costs described in our first recommendation, the grantee stated that it had removed \$18 from the costs charged to the grant but added that the remaining \$934 should have been allowable because of NIH budget approval for training in specialized coding.

Our draft report to the grantee also included a finding and associated monetary recommendation regarding \$4,328 in salary and wage costs. The grantee said that the \$4,328 should not have been a finding and added that it was the result of inadvertent errors made by one service center when trying to improve the formatting of the spreadsheet before it was sent to us.

OFFICE OF INSPECTOR GENERAL RESPONSE TO GRANTEE COMMENTS

After reviewing the grantee's comments, we removed our finding regarding the \$4,328 in salary and wage costs and modified the associated (first) recommendations. We maintain that our other findings and recommendations remain valid.

Regarding the \$952 in direct and indirect costs associated with training and administrative hours that we questioned, we note that when grants are categorized as major projects, cost principles (2 CFR pt. 220, Appendix A) may permit the relevant grantees to classify their training hours as direct costs. However, neither of the two grants whose claimed costs we reviewed in this audit was a major project; therefore, it was not appropriate for the grantee to classify training hours as direct costs. Further, the spreadsheet that the grantee provided to us in July 2011 classified the hours and associated costs for this service center's 6 coders as 100 percent indirect costs and also as 100 percent direct costs. Thus, the grantee did not exercise "special care [to] ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or F&A [facilities and administrative] costs" as mandated by 2 CFR pt. 220, Appendix A. Additionally, the grant proposal did not explain how coder training on these grants was not a like circumstance when compared to coder training for other sponsored projects. Although these training costs were contained within an approved grant proposal, approval of that proposal did not relieve the grantee from ensuring that costs charged to the Federal government were allowable.

NATIONAL INSTITUTES OF HEALTH COMMENTS

In written comments on our draft report, NIH concurred with our fourth recommendation but did not concur with our first three recommendations. With respect to our first recommendation, NIH stated that it regarded the \$952 in costs we had questioned as "... reasonable, allocable, and allowable as a direct cost of doing research within the scope of this particular project." For our second and third recommendations, NIH said that the calculation of indirect cost rates and ensuring the accuracy of these cost rates fall under the purview and responsibility of DCA.

OFFICE OF INSPECTOR GENERAL RESPONSE TO NATIONAL INSTITUTES OF HEALTH COMMENTS

After reviewing NIH's comments, we modified our third recommendation but otherwise maintain that all of our findings and recommendations remain valid.

Regarding the \$952 in direct and indirect costs associated with training and administrative hours that we questioned, we note that, as stated above, the grantee treated the costs as 100 percent indirect costs and also as 100 percent direct costs, which did not constitute a reasonable, allocable, and allowable expenditure of public funds. Thus, the grantee did not exercise "special care [to] ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or F&A costs" as mandated by 2 CFR pt. 220.

Regarding our second and third recommendations, our finding (the costs totaling \$118,357 that we set aside) pointed out that the grantee adjusted the two service centers' indirect cost rates using a methodology that did not conform to either Federal cost principles (2 CFR pt. 220) or the grantee's own policies and procedures. We acknowledge DCA's role in the calculation of indirect cost rates. NIH has ultimate responsibility, though, to determine the allowability of grant costs and to ensure that claimed costs for which it is the cognizant Federal agency comply with applicable rules and regulations. We note, too, that the grantee described corrective actions that it implemented or planned to implement in response to these two recommendations. With these facts in mind, we continue to recommend that NIH require the grantee to develop and implement internal controls designed to ensure that the calculation of service center indirect cost rates is in accordance with Federal requirements. We modified our third recommendation to state that NIH should work with both DCA and the grantee to determine both service centers' correct indirect cost rates for the grantee's 2010 and 2011 fiscal years and resolve the allowability of the \$118,357.

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A: GRANTEE COMMENTS

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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 the uniform administrative requirements for awards and subawards 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 Iowa State University

Iowa State University (the grantee), founded in 1858, is a land grant research institution located in Ames, Iowa. NIH awarded the grantee two related Recovery Act grants (an original and a subsequent award) totaling \$2.7 million for research to address the lack, across public education systems, of a well-integrated infrastructure to support a delivery system¹ designed to reduce risky youth behaviors, enhance positive youth development, and strengthen families. The original grant period was September 30, 2009, through August 31, 2011; the grantee has since

¹ This delivery system is referred to as the PROSPER—Promoting School-Community-University Partnerships to Enhance Resilience—partnership model. It is designed to deliver tested and proven programs via management teams and program coordinators, who provide technical assistance to community teams. These teams, in turn, deliver programs to their community youth and their families.

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 \$1,673,593 under the NIH grants.

Service Centers at the Grantee Level: Specialized Service Facilities and Recharge Centers

A service center is a business unit within the grantee that can provide goods and/or services either to other entities within the grantee organization or to external customers. Fees are charged for those goods and/or services and can be provided on either a one-time or a recurring basis. Service centers at universities can provide a multitude of goods and/or services solely to elements within the institution, either to or in support of sponsored projects or external customers.

Two types of service centers at universities are “specialized service facilities” and “recharge centers.”² Specialized service facilities are service centers with annual budgets generally greater than \$1,000,000.³ They provide highly complex or specialized services involving such equipment as wind tunnels, reactors, and electron microscopes. Recharge centers are another type of service center, but with annual budgets generally under \$1,000,000.⁴ They are not considered specialized because their services and the equipment they use are not highly complex. Recharge centers provide such services as photocopying and laboratory glass-washing.

At the time of our review, the grantee had over 700 service centers in operation and charged the costs from two service centers to the NIH grants we reviewed.

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 1RC2DA028879-01 and 5RC2DA028879-02. For the

² Section 3.2.0 of the OMB Cost Accounting Standard Board (CASB) Disclosure Statement Form, CASB DS-2, defines service centers as including recharge centers and specialized service facilities.

³ For an example of a Federal benchmark that uses the \$1,000,000 threshold, see the U.S. Department of Health and Human Services (HHS), Division of Cost Allocation (DCA), website, Frequently Asked Questions, <http://rates.psc.gov/fms/dca/faq-cu.pdf> (accessed October 26, 2012). In addition, see guidelines published by NIH in the Frequently Asked Questions section of <http://grants.nih.gov/grants/guide/notice-files/NOT-OD-10-138.html> (accessed October 26, 2012). There is no Federal requirement specifying a particular dollar threshold; each University sets its own threshold.

⁴ See footnote 3.

grant period, the grantee claimed a total of \$1,673,593 in direct and indirect costs. We reviewed \$1,493,199 of those costs 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 Ames, Iowa.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and other guidance;
- reviewed grant announcements, grant applications, and notices of grant award;
- 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 forecasted to actual expenditures;
- reviewed judgmentally selected costs⁵ claimed under the grants for allowability, allocability, and reasonableness; and
- discussed the results of our review with grantee officials on January 18, 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 objectives.

⁵ Ninety percent of the grantee's claimed costs were in two categories: salaries (including fringe benefits) and consultant fees. We tested 96 percent of the claimed costs for those two categories. We also tested the highest dollar transactions of the remaining 10 percent of the grantee's claimed costs.

FINDINGS AND RECOMMENDATIONS

Most of the costs claimed by the grantee were allowable under applicable Federal regulations and the terms of the grants. However, certain costs claimed by the grantee that involved service centers and that totaled \$3,487 were not allowable. Specifically:

- The grantee claimed \$2,535 in unallowable direct and indirect costs associated with 18 hours of employee time for which the grantee could provide no supporting documentation and for which the grantee made an error in calculations. The grantee adjusted the \$2,535 during our fieldwork.
- The grantee also claimed \$952 in unallowable direct and indirect costs associated with 38 hours of employee time that were dedicated to training and administrative functions. Because employee hours dedicated to these functions are generally unallowable as direct costs, the grantee incorrectly billed for \$643 in direct costs as well as associated indirect costs of \$309 which were also incorrectly charged and claimed.

We are setting aside, for adjudication by NIH, costs totaling \$118,357 for which we are unable to reach a conclusion because some of the data that we required to determine the indirect cost rates for the two service centers involved forecasted and actual costs that were outside our audit period.

The grantee claimed unallowable costs and incorrectly calculated its rate adjustments because it did not have effective oversight to ensure compliance with Federal requirements. Furthermore, the grantee did not have a formal written policy describing the guidelines that it used to differentiate its service center types.

UNALLOWABLE COSTS

Federal Requirements

2 CFR pt. 220, Appendix A, section A.2.e, states: “[T]he accounting practices of individual colleges and universities must support the accumulation of costs as required by the [cost accounting] principles, and must provide for adequate documentation to support costs charged to sponsored agreements.”

2 CFR pt. 220, Appendix A, section B.4, states:

Facilities and administrative (F&A) costs, for the purpose of this Appendix, means costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. F&A costs are synonymous with “indirect” costs

2 CFR pt. 220, Appendix A, section C.2, states:

The tests of allowability of costs under these principles are: they must be reasonable; they must be allocable to sponsored agreements under the principles and methods provided herein; they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

Undocumented Employee Time and a Timecard Error

The grantee claimed unallowable direct and indirect costs of \$2,535 associated with 18 hours of employee time. Specifically:

- One service center billed the grantee for 10 hours of employee time for which the grantee could provide no supporting documentation. The grantee consequently claimed unallowable direct costs of \$1,185 and related indirect costs of \$569, for a total of \$1,754.
- A second service center billed the grantee for 8 hours of employee time that the center had added incorrectly on a timesheet. The grantee consequently claimed unallowable direct costs of \$528 and related indirect costs of \$253, for a total of \$781.

After we discussed these matters with grantee official, the grantee reduced claimed costs by \$2,535 on its Sponsored Program Financial Reports, respectively dated October 31, 2011, and January 31, 2012.

Incorrectly Billed Training and Administrative Hours

Employment training provided to employees and employee time spent performing administrative tasks in the course of normal workplace operations are usually classified as F&A costs and therefore are generally not allowable direct costs. The grantee claimed unallowable costs totaling \$952 in direct and indirect costs associated with 38 hours of employee time, billed on two invoices by one service center, that were dedicated to training and administrative functions. Because employee hours dedicated to these functions are generally unallowable as direct costs, the grantee incorrectly billed for \$643 in direct costs as well as associated indirect costs of \$309 which were also incorrectly charged and claimed.

POTENTIALLY UNALLOWABLE COSTS

Federal Requirements and Grantee Policy Guidelines

2 CFR pt. 220, Appendix A, section D.2, states:

The cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations may be included as direct costs of sponsored agreements, provided such items are consistently treated, in like circumstances, by the institution as direct rather than F&A costs, and are charged under a recognized method of computing actual costs, and conform to generally accepted cost accounting practices consistently followed by the institution.

2 CFR pt. 220, Appendix A, section J.47.b, states:

The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that:

(2) Is designed to recover only the aggregate costs of the services. The costs of each service shall consist normally of both its direct costs and its allocable share of all F&A costs. Rates shall be adjusted at least biennially, and shall take into consideration over/under applied costs of the previous period(s).

(In the context of this report, the term “over/under applied costs” generally refers to the difference, as identified by a grantee’s application of generally accepted cost accounting practices, between a service center’s forecasted operating costs and its actual operating costs.)

Grantee Policy Guidance, Periodic Rate Review and Adjustment (ISU Financial Accounting and Reporting) states: “... 2. Rates must be reviewed annually at the end of each fiscal year or operating year. 3. Compare actual annual costs and actual units per year to your projections in your rate formula.”

Methodology for Service Center Rate Adjustments

Federal regulations (45 CFR part 74) state that, with the exception of certain specialized programs, “... no HHS funds may be paid as profit to any recipient even if the recipient is a commercial organization.” Accordingly, a service center that charges costs to federally sponsored projects is to operate on a revenue-neutral (break-even) basis. At the start of the grantee’s fiscal year (FY), a service center should determine the indirect cost (that is, F&A) rate it will charge based upon its ratio of forecasted indirect operating costs to forecasted direct operating costs. A service center will multiply that rate, which is a percentage, by the direct cost of a service or an item it provided to a customer in order to recoup its indirect cost expenses. At the end of the grantee’s FY, the service center should then systematically evaluate its actual operating costs against its forecasted operating costs; any difference between the two will result in either a deficit or a surplus. At the start of the next FY, the service center should then adjust

its indirect cost rate for the new FY to take into account either the deficit or the surplus it had from its previous FY. This adjustment is referred to as a rate adjustment.

Potentially Incorrect Rate Adjustments

Contrary to the cost principles in 2 CFR pt. 220, Appendix A, and the grantee's own policies and procedures, the grantee incorrectly adjusted these two service centers' indirect cost (F&A) rates for its FYs 2010 and 2011. Rather than making its rate adjustment on the basis of the difference between all actual annual operating costs for the FY (which include payroll) and a forecast of those operating costs—which is what the CFR and the grantee's written policies specify—the grantee inappropriately applied fringe benefits liabilities to make rate adjustments to the forecasted operating costs.

Additionally, under the provisions of the Grantee Policy Guidance, Periodic Rate Review and Adjustment (ISU Financial Accounting and Reporting), the grantee should have evaluated the forecasted costs against the actual costs of both service centers for its 2009 FY. The grantee should then have taken into account either the surpluses or the deficits from that evaluation to adjust the FY 2010 indirect cost rates for each service center. Because the grantee's 2009 FY was outside of our audit period, we were unable to determine the appropriate FY 2010 indirect cost rates for the two service centers. Therefore we are setting aside, for adjudication by NIH, costs totaling \$118,357 (\$79,971 in direct costs and \$38,386 in indirect costs).

SERVICE CENTER TYPES NOT DIFFERENTIATED

Federal Requirements

2 CFR pt. 220, Appendix A, section J.47.a, states: "The costs of services provided by highly complex or specialized facilities operated by the institution, such as computers, wind tunnels, and reactors are allowable ..." so long as certain specified conditions are met.

45 CFR Subtitle A, pt. 74, Subpart C, section 74.21.(b), states: "Recipients' financial management systems shall provide for the following: (6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award."

NIH's Grants Policy Statement, Part II, Subpart A, chapter 8, section 8.3, states: "NIH seeks to foster within grantee organizations an organizational culture that is committed to compliance, leading to both exemplary research and exemplary supporting systems and use of resources to underpin that research. Actions to achieve this result should include ... written policies and procedures"

Potential for Inadequate Monitoring of Service Centers

DCA (see footnote 3) is a cognizant Federal agency for reviewing and negotiating F&A costs and other rates charged to Federal programs by grantees. According to the criteria cited above, universities must have written policies that differentiate their service center types, such as

specialized service facilities and recharge centers, for cost accounting purposes. DCA evaluates the adequacy of these university policies. Although the grantee had policies and procedures that dealt with service center billing rates, it did not have a formal written policy that differentiated specialized service facilities from recharge centers.

The grantee's lack of a formal written policy to differentiate types of service centers raises the risk that the grantee's service centers may charge indirect and direct costs to federally sponsored grants and contracts not in accordance with applicable Federal cost principles.

LACK OF OVERSIGHT AND FORMAL WRITTEN POLICY

The grantee claimed unallowable costs and incorrectly calculated its rate adjustments because it did not have effective oversight to ensure compliance with Federal requirements. Furthermore, the grantee did not have a formal written policy describing the guidelines that it used to differentiate its service center types.

RECOMMENDATIONS

We recommend that NIH:

- require the grantee to refund \$952 in unallowable costs related to NIH grants 1RC2DA028879-01 and 5RC2DA028879-02;
- require the grantee to develop and implement internal controls designed to ensure that the calculation of service center indirect cost rates is in accordance with Federal requirements;
- work with DCA and the grantee to determine both service centers' correct indirect cost rates for the grantee's 2010 and 2011 FYs and resolve the allowability of \$118,357; and
- ensure that the grantee develops and implements a formal written policy that differentiates service center types.

GRANTEE COMMENTS

In written comments on our draft report, the grantee described corrective actions that it implemented or planned to implement in response to our second, third, and fourth recommendations.

Regarding the \$952 in unallowable costs described in our first recommendation, the grantee stated that it had removed \$18 from the costs charged to the grant but added that the remaining \$934 should have been allowable because of NIH budget approval for training in specialized coding.

Our draft report to the grantee also included a finding and associated monetary recommendation regarding \$4,328 in salary and wage costs. The grantee said that the \$4,328 should not have

been a finding and added that it was the result of inadvertent errors made by one service center when trying to improve the formatting of the spreadsheet before it was sent to us.

The grantee's comments, excluding 24 pages of attachments which contain personally identifiable information, are included as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE TO GRANTEE COMMENTS

After reviewing the grantee's comments, we removed our finding regarding the \$4,328 in salary and wage costs and modified the associated (first) recommendation. We maintain that our other findings and recommendations remain valid.

Regarding the \$952 in direct and indirect costs associated with training and administrative hours that we questioned, we note that when grants are categorized as major projects, cost principles may permit the relevant grantees to classify their training hours as direct costs.⁶ However, neither of the two grants whose claimed costs we reviewed in this audit was a major project; therefore, it was not appropriate for the grantee to classify training hours as direct costs. Further, the spreadsheet that the grantee provided to us in July 2011 classified the hours and associated costs for this service center's 6 coders as 100 percent indirect costs and also as 100 percent direct costs. Thus, the grantee did not exercise "special care [to] ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or F&A costs" as mandated by 2 CFR pt. 220, Appendix A. Additionally, the grant proposal did not explain how coder training on these grants was not a like circumstance when compared to coder training for other sponsored projects.⁷ Although these training costs were contained within an approved grant proposal, approval of that proposal did not relieve the grantee from ensuring that costs charged to the Federal government were allowable.

NATIONAL INSTITUTES OF HEALTH COMMENTS

In written comments on our draft report, NIH concurred with our fourth recommendation but did not concur with our first three recommendations. With respect to our first recommendation, NIH stated that it regarded the \$952 in costs we had questioned as "... reasonable, allocable, and allowable as a direct cost of doing research within the scope of this particular project." For our

⁶ 2 CFR pt. 220, Appendix A, section F.6.b.(2), states that a "[m]ajor project" is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments."

⁷ 2 CFR pt. 220, Appendix A, section C.11.a, states: "All costs incurred for the same purpose, in like circumstances, are either direct costs only or F&A costs [i.e. indirect costs] only with respect to final cost objectives. No final cost objective shall have allocated to it as a cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any F&A cost [i.e. indirect cost] pool to be allocated to that or any other final cost objective."

second and third recommendations, NIH said that the calculation of indirect cost rates and ensuring the accuracy of these cost rates fall under the purview and responsibility of DCA.

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

OFFICE OF INSPECTOR GENERAL RESPONSE TO NATIONAL INSTITUTES OF HEALTH COMMENTS

After reviewing NIH's comments, we modified our third recommendation but otherwise maintain that all of our findings and recommendations remain valid.

Regarding the \$952 in direct and indirect costs associated with training and administrative hours that we questioned, we note that, as stated above in "Office of Inspector General Response to Grantee Comments," the grantee treated the costs as 100 percent indirect costs and also as 100 percent direct costs, which did not constitute a reasonable, allocable, and allowable expenditure of public funds. Thus, the grantee did not exercise "special care [to] ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or F&A costs" as mandated by 2 CFR pt. 220.

Regarding our second and third recommendations, our finding (the costs totaling \$118,357 that we set aside) pointed out that the grantee adjusted the two service centers' indirect cost rates using a methodology that did not conform to either Federal cost principles (2 CFR pt. 220, Appendix A) or the grantee's own policies and procedures. We acknowledge DCA's role in the calculation of indirect cost rates. NIH has ultimate responsibility, though, to determine the allowability of grant costs and to ensure that claimed costs for which it is the cognizant Federal agency comply with applicable rules and regulations. We note, too, that the grantee described corrective actions that it implemented or planned to implement in response to these two recommendations. With these facts in mind, we continue to recommend that NIH require the grantee to develop and implement internal controls designed to ensure that the calculation of service center indirect cost rates is in accordance with Federal requirements. We modified our third recommendation to state that NIH should work with both DCA and the grantee to determine both service centers' correct indirect cost rates for the grantee's 2010 and 2011 fiscal years and resolve the allowability of the \$118,357.

APPENDIXES

APPENDIX A: GRANTEE COMMENTS



Controller's Department
3607 Administrative Services Bldg., Rm 1635
Ames, Iowa 50011-3607
515 294-2555
FAX 515 294-3401

November 14, 2012

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

Re: Report Number: A-07-11-06024

Dear Mr. Cogley:

Iowa State University (ISU) appreciates the opportunity to respond to the November 1, 2012 draft audit report for American Recovery and Reinvestment Act (ARRA) grant numbers 1RC2DA028879-01 and 5RC2DA028879-02. ISU provides the following responses to the Findings and Recommendations within the report. We ask that HHS maintain the confidentiality of the enclosed exhibits.

Finding #1:

The grantee claimed \$4,328 in unallowable salary and wage costs, consisting of \$2,924 in direct costs that were billed at an incorrect hourly rate, as well as \$1,404 in associated indirect costs.

ISU Response to Finding #1:

On 7/29/2011, ISU sent spreadsheets to the auditors to support a service center's rates for FY10 and FY11 (see Exhibit A). The service center inadvertently made some changes to the FY11 rate for one employee when trying to improve the formatting of the spreadsheet before it was sent to the auditors on 7/29/2011. ISU detected the errors in the 7/29/2011 spreadsheet while preparing a response to additional requests from the auditors in early October 2011. ISU sent a corrected spreadsheet showing the actual hourly rate for FY11 to the auditors on 10/14/2011 (see Exhibit B). After ISU received the Objective Attributes Recap Sheet indicating the auditors' position that ISU had billed at the incorrect hourly rate, ISU sent an e-mail to the auditors on 1/24/2012 indicating that the auditors were relying on the wrong spreadsheet (7/29/2011 version) to support this condition (see Exhibit C). Respectfully, this condition should not be a finding as the auditors were provided with corrected rate calculations that support the actual hourly rate charged in FY11 for this service center employee's work.

Finding #2:

The grantee also claimed \$2,535 in unallowable direct and indirect costs associated with 18 hours of employee time for which the grantee could provide no supporting documentation and for which the grantee made error in calculations.

ISU Response to Finding #2:

The University has removed from the grant account the service center charges associated with hours of employee time for which there is no supporting documentation.

Finding #3:

Finally, the grantee claimed \$952 in unallowable direct and indirect costs associated with 38 hours of employee time that were dedicated to training and administrative functions. Because employee hours dedicated to these functions are generally unallowable as direct costs, the grantee incorrectly billed for \$643 in direct costs as well as associated indirect costs of \$309 which were also incorrectly charged and claimed.

ISU Response to Finding #3:

Hourly Content Coders performed the 38 hours of employee time at issue in this finding. The University has removed \$17.88 in service center charges for the Hourly Content Coders' 1.1 administrative hours charged to the grant account. ISU respectfully disagrees that the Hourly Content Coders' training hours are unallowable. These training hours were not incurred for general purpose training nor for professional development. Section D.1 of OMB Circular A-21 states in part: "Direct costs are those costs that can be identified specifically with a particular sponsored project..." The auditors' position that these training hours should be considered unallowable as direct costs is not appropriate, as these training hours can be identified specifically with, and provided benefit to, this particular sponsored project.

The training hours were included in the grant's approved budget and were detailed in the grant application's budget justification for the Hourly Content Coders (see Exhibit D). The sponsored project involved specialized coding. The Hourly Content Coders needed training on how to perform this specialized coding in order to carry out the project's protocols for generating project-specific assessments. ISU communicated to the auditors on 2/15/12 that ISU believes the training hours of the Hourly Content Coders should be considered as allowable direct costs to the grant (see Exhibit E). ISU still maintains that belief.

The draft audit report *recommends that NIH:*

Recommendation #1:

Require the grantee to refund \$5,290 in unallowable costs related to NIH Grants 1RC2DA028879-01 and 5RC2DA028879-02.

ISU Response to Recommendation #1:

As stated above, the University disagrees with Finding #1 and the training hours portion of Finding #3. ISU has removed the service center charges associated with Finding #2 and the administrative hours portion of Finding #3 from the grant account.

Recommendation #2:

Require the grantee to develop and implement internal controls designed to ensure that the calculation of service center indirect cost rates is in accordance with Federal requirements.

ISU Response to Recommendation #2:

The University established a Fee-for-Service Task Force in March 2012 that includes representatives from Business Services, Controller's Department, Sponsored Programs Administration, and University Counsel. ISU will contribute additional resources to review service center operations and provide additional training to service center staff in order to strengthen the internal control structure for service centers.

Recommendation #3:

Work with the grantee to determine both service centers' correct indirect cost rates for the grantee's 2010 and 2011 FYs and resolve the allowability of \$118,357.

ISU Response:

The University intends to cooperatively work with NIH and provide supporting documentation that meets the Federal requirements for the service center charges that were set aside by the auditors.

Recommendation #4:

Ensure that the grantee develops and implements a formal written policy that differentiates service center types.

ISU Response:

The University agrees to develop and implement a written institutional policy that defines specialized service facilities and recharge centers.

If you need any additional information, please contact me at 515-294-4414 or rjmusse@iastate.edu.

Sincerely,

A handwritten signature in black ink that reads "Becky Musselman". The signature is written in a cursive, flowing style.

Becky Musselman
Associate Controller
Controller's Department
Iowa State University

Enclosures: Exhibits A thru E

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: **FEB 28 2013**

SUBJECT: General Comments on Office of Inspector General Draft Report, *Most of the Costs Claimed by Iowa State University Under American Recovery and Reinvestment Act of 2009 Grant Numbers 1RC2DA028879-01 and 5RC2DA028879-02 Were Allowable* (A-07-11-06024)

Attached are the National Institutes of Health's agency comments on the draft report, *Most of the Costs Claimed by Iowa State University Under American Recovery and Reinvestment Act of 2009 Grant Numbers 1RC2DA028879-01 and 5RC2DA028879-02 Were Allowable* (A-07-11-06024).

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.

Attachment:
NIH General Comments on
OIG Draft Report A-07-11-06024

**GENERAL COMMENTS OF THE NATIONAL INSTITUTES OF HEALTH ON THE
DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) OFFICE OF
INSPECTOR GENERAL (OIG) DRAFT REPORT ENTITLED, MOST OF THE COSTS
CLAIMED BY IOWA STATE UNIVERSITY UNDER AMERICAN RECOVERY AND
REINVESTMENT ACT OF 2009 GRANT NUMBERS IRC2DA028879-01 AND
5RC2DA028879-02 WERE ALLOWABLE (A-07-11-06024)**

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

OIG Finding 1: The OIG recommends that NIH require Iowa State University to refund \$952 in unallowable costs related to NIH grants IRC2DA028879-01 and 5RC2DA028879-02 (page 8).

The NIH does not concur with the OIG's finding and corresponding recommendation regarding the recovery of \$952 in unallowable costs related to NIH grants IRC2DA028879-01 and 5RC2DA028879-02. The NIH, including the funding institute, the National Institute on Drug Abuse, has reviewed the questioned costs and determined that they are allowable expenses, as requested and approved in the original application. Training coders (content coders) code research data, such as qualitative interview data. These costs are reasonable, allocable, and allowable as a direct cost of doing research within the scope of this particular project.

OIG Finding 2: The OIG recommends that NIH require the grantee to develop and implement internal controls designed to ensure that the calculation of service center indirect cost rates is in accordance with federal requirements (page 8).

The NIH does not concur with the OIG's finding and corresponding recommendation that NIH require the grantee to develop and implement internal controls designed to ensure that the calculation of service center indirect cost rates is in accordance with federal requirements. Calculation of indirect cost rates and ensuring the accuracy of these cost rates fall under the purview and responsibilities of the HHS Division of Cost Allocation (DCA).

OIG Finding 3: The OIG recommends that NIH work with the grantee to determine both service centers' correct indirect cost rates for the grantee's 2010 and 2011 fiscal years and resolve the allowability of \$118,357 (page 8).

The NIH does not concur with the OIG's finding and corresponding recommendation that NIH work with the grantee to determine both service centers' correct indirect cost rates for the grantee's 2010 and 2011 fiscal years and resolve the allowability of \$118,357. As stated in the response to OIG finding #2, the determination of indirect cost rates is the responsibility of the DCA.

**GENERAL COMMENTS OF THE NATIONAL INSTITUTES OF HEALTH ON THE
DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) OFFICE OF
INSPECTOR GENERAL (OIG) DRAFT REPORT ENTITLED, MOST OF THE COSTS
CLAIMED BY IOWA STATE UNIVERSITY UNDER AMERICAN RECOVERY AND
REINVESTMENT ACT OF 2009 GRANT NUMBERS IRC2DA028879-01 AND
5RC2DA028879-02 WERE ALLOWABLE (A-07-11-06024)**

OIG Finding 4: The OIG recommends that NIH ensure that the grantee develops and implements a formal written policy that differentiates service center types (page 8).

The NIH concurs with the OIG's finding and corresponding recommendation that NIH ensure that the grantee develops and implements a formal written policy that differentiates service center types. The NIH will ensure that the University develops and implements a formal written policy that details the differences between types of service centers.