



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

APR 16 2004

Office of Audit Services  
Region I  
John F. Kennedy Federal Building  
Boston, MA 02203  
(617) 565-2684

Report Number: A-01-03-01502

Mr. Laurence F. Mucciolo  
Sr. Vice President, Administration and Finance  
184 Richard Hall  
Northeastern University  
360 Huntington Avenue  
Boston, Massachusetts 02115

Dear Mr. Mucciolo:

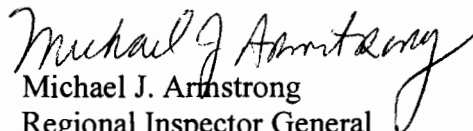
Enclosed are two copies of the U.S. Department of Health and Human Services (HHS) Office of Inspector General, Office of Audit Services' report entitled "Northeastern University DHHS Grant Costs" covering National Institutes of Health grant no. 5 R29 EY09712 for the period from April 1, 1993 through March 31, 2000. A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response would present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Report Number A-01-03-01502 in all correspondence relating to this report.

Sincerely,

  
Michael J. Armstrong  
Regional Inspector General  
For Audit Services

Enclosures - as stated

**Direct Reply to HHS Action Official:**

Leanne Robey, Chief  
Special Reviews Branch  
Division of Financial Advisory Services  
Office of Acquisition Management and Policy  
National Institutes of Health  
6100 Executive Blvd. Room 6B05  
Mail Stop – MSC 7540  
Bethesda, Maryland 02892

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**NORTHEASTERN UNIVERSITY  
DHHS GRANT COSTS**



**April 2004  
A-01-03-01502**

# *Office of Inspector General*

<http://oig.hhs.gov>

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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 OIG's 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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

## *Office of Evaluation and Inspections*

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

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## *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. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

# *Notices*

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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.





Office of Audit Services  
Region I  
John F. Kennedy Federal Building  
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April 16, 2004

Report Number: A-01-03-01502

Mr. Laurence F. Mucciolo  
Sr. Vice President, Administration and Finance  
184 Richard Hall  
Northeastern University  
360 Huntington Avenue  
Boston, Massachusetts 02115

Dear Mr. Mucciolo:

We are providing you with the results of our review of grant no. 5 R29 EY09712-05 awarded by the National Institutes of Health (NIH), National Eye Institute. Our objective was to determine whether costs claimed for reimbursement by Northeastern University (the University) represent allowable, allocable and reasonable costs under the terms of Department of Health and Human Service (DHHS) grants, contracts and subcontracts.

Our review of \$525,188 in cost claimed for NIH grant no. 5 R29 EY09712-05 identified \$61,215 that did not meet Federal requirements.

## INTRODUCTION

### BACKGROUND

One of the missions for the University is to serve as a proactive force in research stimulation by largely focusing on the application of knowledge to real world issues derived from partnership and close interaction with industry. The faculty involves students in their research that provide invaluable learning opportunities for undergraduates and preparing graduate students for professional rigors of respective fields. One source of research funding is Federal grants.

University internal grant No. 5-9201, "Post-Receptor Color Channels and Their Interactions", totaling \$525,188 provided for scientific research on the three psychophysically defined detection mechanisms in human vision. As part of this project, researchers analyzed an additive or luminance mechanism, an opponent red versus green mechanism, and yellow versus blue mechanism. The grant period was from April 1993 through March 2000.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

### **Objective**

Our objective was to determine whether costs claimed for reimbursement by the University represent allowable, allocable and reasonable costs claimed under the terms of DHHS grants, contracts and subcontracts.

### **Scope**

We conducted our review in accordance with generally accepted government auditing standards.

We limited our review of internal controls to the processes used by the University to claim related costs for Federal reimbursement. Our review covered the period from April 1, 1993 through March 31, 2000.

### **Methodology**

We used applicable Federal regulations and University policies to determine if amounts claimed met reimbursement requirements. In addition, we obtained supporting expense reports, payroll journals, personnel records and supporting documents to perform audit tests of various cost categories.

Our review of included:

- 1) reconciling costs claimed by the University to support accounting records;
- 2) tracing direct labor and other direct costs (i.e., materials, supplies, equipment and travel expenses) to source documents; and
- 3) verifying that the University applied overhead and fringe benefit rates approved by the DHHS, Division of Cost Allocation.

Our fieldwork was performed between April 2003 through December 2003 at Northeastern University in Boston, Massachusetts and at our regional office. We issued our draft report to the University on February 17, 2004. On March 22, 2004, the University provided us with their comments (See Appendix B).

## **FINDINGS AND RECOMMENDATIONS**

We identified \$61,215 in unsupported or incorrectly charged salaries and related fringe benefits and indirect costs for grant no. 5-9201 that did not meet Federal regulations (See Appendix A).

## Criteria

- (1) OMB Circular A-21 Section J.8.d. (2)(b), regarding after-the-fact reporting for payroll distribution requires:

“...confirmation or determination so that costs distributed represents **actual** (emphasis added) costs....”

Further, OMB Circular A-21 Section b. (2), states that under this method, distribution of salaries and wages by the institution will be supported by activity reports that reflect the distribution of activity expended by employees covered by the system. These reports will reflect an after-the-fact reporting of percentage distribution of activity of employees. Charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences are indicated by activity record. Reports will reasonably reflect the activities for which employees are compensated by the institution source documents.

- (2a) OMB Circular A-21, Section b. (1) (a) regarding General Principles on Payroll Distribution states that the distribution of salaries and wages, whether treated as direct or F&A costs, will be based on payrolls documented in accordance with the generally accepted practices of colleges and universities.
- (2b) The University’s “Guide for Principal Investigators -Managing Your Award,” under the section Effort Reporting, requires that the Principal Investigator (PI) for the project must keep accurate track of, and account for the time that project personnel are **actually** engaged on the work of the project by way of effort reporting. The effort reporting system is called the Personal Activity Reporting System (PARS).

In addition, each month each employee working on externally funded projects will receive a PARS form for their signature. The PI or supervisor must certify actual employee effort by signing the employees PARS time sheets. Actual time provided by employees is used to update PARS for payroll purposes. University policy states that the time sheets must be submitted in a timely fashion to ensure monthly financial reports are accurate and reflect any changes made from the planned to actual effort for that month.

- (3) The Office of Management and Budget (OMB) Circular A-110, Subpart C, Section 21, b. (1) and (7), Standards for financial management systems, states that:
- (a) Recipients' financial management systems shall provide for the following:
- “Accurate, current and complete disclosure of the financial results of each federally-sponsored project”



- “Accounting records, including cost accounting records, are supported by source documentation.”

### **Condition**

Time sheets for PI summer salaries and another employee did not consistently include required time reporting information. Our review of 20 timesheets submitted by the PI for time worked during the summer sessions from FY 1994 through FY 2000 disclosed that:

- 1 of the time sheets included actual effort of 66% for the grant. However, 100% effort was claimed for Federal reimbursement.
- 7 of the time sheets did not include the actual effort expended on the grant. However, 100% effort was claimed for Federal reimbursement.
- 12 of the time sheets appropriately included the actual percentage of effort and charged to the grant.

For another employee, 3 of 10 pay periods could not be supported by time sheets for FY 1993 and FY 1998. The remaining pay periods were properly supported.

### **Cause**

The University does not have adequate controls in place to ensure that:

- Budgeted (estimated) and actual level of effort are consistently reported for salaries,
- Differences in budgeted and actual level of effort are updated when processing payroll, which is used to claim costs, and
- Supporting documents are adequately maintained.

### **Effect**

The grant was overstated by \$61,215 as follows (See Appendix A):

- \$37,509 in total salaries consisting of PI summer salaries (\$35,483) and salaries for another individual (\$2,026);
- \$116 in fringe benefits; and
- \$23,590 in indirect costs.

## **Recommendations**

We recommend that the University:

- Improve controls to ensure that procedures are followed for reporting and claiming actual percentage of work effort.
- Improve procedures for maintaining supporting documents.
- Refund of \$61,215 in overstated costs.

## **AUDITEE COMMENTS AND OIG RESPONSE:**

### **Direct Labor and Related Indirect Costs**

#### **Auditee Comments**

The University believes that summer salaries are adequately supported and consideration should be given on salaries for another individual due to the length of time that has passed since the costs were incurred (see Appendix A). Supporting documents provided by the University for PI summer salaries included:

- “Extra Compensation Request Form – Research Summer Salary” approving funding for anticipated summer labor costs;
- an NIH grant budget demonstrating that the PI’s summer activity was budgeted for the project period; and
- a note dated March 17, 2004 from the PI attesting that he had spent 100 percent of his effort on the grant for the 1995, 1996, and 1998 summer sessions.

#### **OIG Response**

It is our opinion that the costs claimed for salaries were not adequately supported and should be disallowed.

OMB Circular A-21 states that direct labor is allowable to the extent that total compensation to employees consistently conforms to established policies of the institution. University guidelines for managing grants state that:

- Actual effort reporting, via monthly PARS for faculty, is required for all salaries, including summer work.

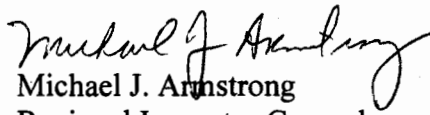
- Timely submission of properly signed and approved PARS is critical for financial reporting. Undocumented efforts are to be charged to operational budgets.

Effective internal controls for the processing of payroll transactions should include:

- Charging direct labor based on actual effort expended instead of estimate or budget activity.
- Maintaining copies of time sheets reports to substantiate labor charges.

Although the request to earn extra compensation was approved in proximity to when the work was performed and related costs were included in the budget, PARS documenting actual time spent on the grant by the PI were not prepared and approved when work was performed. Instead, a letter was prepared by the PI four years after the grant was ended and after our draft report was issued. Accordingly, the payroll transactions did not comply with Federal regulations and University procedures, and direct charges of \$37,509 should be disallowed as well as \$23,706 in related fringe benefits and indirect costs.

Sincerely,

  
Michael J. Armstrong  
Regional Inspector General  
for Audit Services

# **APPENDICES**

**COSTS QUESTIONED BY FINDING AND COST CATEGORY**

	<b>SALARIES WAGES</b>	<b>FRINGE BENEFITS</b>	<b>INDIRECT COSTS</b>	<b>TOTAL</b>
<b>UNSUPPORTED SALARIES &amp; WAGES</b>	\$37,509	\$116	\$23,590	<u><u>\$61,215</u></u>

March 18, 2004

Ms. Lori Pilcher  
Audit Manager  
Office of Audit Services  
Department of Health & Human Services  
Region I  
John F. Kennedy Federal Building  
Boston, MA 02203

RE: Audit Report Number A-01-03-01502  
Northeastern University DHHS Grant Costs

Dear Ms. Pilcher:

This letter is Northeastern University's response to the above-referenced audit report. Our comments on each audit finding are provided below. As indicated in our comments, we strongly disagree with the audit findings involving the summer salary of the principal investigator to NIH grant EY 09712.

**Direct labor and Related Fringe Benefits**

**(1) Principal Investigator Summer Salary and Fringe Benefits - \$35,483**

This finding concerns the 7 (time sheets) summer salary payments of [REDACTED] the Principal Investigator on NIH grant EY 09712, for the period July 1, 1995 to September 15, 1995 and July 1, 1996 to September 15, 1996 and September 1998. The salary charge was questioned by the auditors because "...supporting time records did not include the actual effort expended...."

We disagree with this finding and believe it ignores overwhelming evidence that these costs are proper charges to the grant. [REDACTED] was paid a summer salary for the sole purpose of working on this grant in the summers of 1995 and 1996 and September 1998. This research project was his only responsibility during the summer of 1995 and 1996 and September 1998; he had no teaching or other duties during this period and would not have been paid by Northeastern University a summer salary had he not worked 100% on the project. An official University document called an "Extra Compensation Request Form - Research, Summer Salary" specifically states that the summer compensation was paid to [REDACTED] for "Research on EY 09712 (NIH)." This form was signed by [REDACTED] and approved by [REDACTED] Senior Grant &

Contract Administrator of the Division of Sponsored Research, and [REDACTED] Dean College of Arts & Sciences. I respectfully submit that, an official University form signed by the Principal Investigator and approved by the University's Senior Grant & Contact Administrator prior to the end of the period provides clear evidence that [REDACTED] worked full-time on the project during this period.

In our view, this information in itself fully supports these charges. However, as additional support, a written statement certifying that he "...had 100% effort on NIH grant EY 09712 for the summers of 1995 and 1996 and September 1998...." Although this document was recently prepared, it is not difficult for [REDACTED] to recall and attest to his activities during the summers of 1995 and 1996 and September 1998, since he was the Principal Investigator on the project and it was his sole responsibility during this period.

In sum, these costs are proper and allowable charges to this grant. Documentation prepared at the time supports this conclusion as does current written certifications from the individual who has first-hand knowledge of the work performed on the grant.


The Extra Compensation Request Form, and [REDACTED] written statement, and Budget Justification form are in Attachments A, B, and C respectively.

(2) Part-time payroll and Fringe Benefits - \$2,026

Time sheets for 1993 and 1998 were missing. We believe that these forms were either misfiled or lost and consideration should be given the University on this proposed disallowance due to the length of time that has past from the findings to the audit in 2003.

If you have any questions on this material please call either John Harris (617)373-5158, or myself. If you would like, we would be glad to meet with you on any or all of these matters at your convenience.

Sincerely,



William E. Kneeland Jr.  
Controller  
(617)373-2111

The attachments referenced in Appendix B are not included as a part of this report as they contain personal and confidential information which may not be releasable under 45 CFR Part 5 (FOIA).