



DEPARTMENT OF HEALTH & HUMAN SERVICES

REGION III
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PHILADELPHIA, PENNSYLVANIA 19104

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MAR 26 1996

OIG OFFICE OF AUDIT SERVICES

MAILING ADDRESS:
P.O. BOX 13716, MAIL STOP 9
PHILADELPHIA,
PENNSYLVANIA 19101

Our Reference: Common Identification Number A-03-95-04011

Dr. Charles F. Sturtz
Vice President for Administrative Affairs
University of Maryland, College Park
1132 Main Administration Building
College Park, Maryland 20742

Dear Dr. Sturtz:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) report entitled, "**REVIEW OF RECHARGE CENTER CONTROLS AT THE UNIVERSITY OF MARYLAND, COLLEGE PARK,**" Common Identification Number (CIN) A-03-95-04011. A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

Final determinations as to actions to be taken on all matters reported will be made by the HHS official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should 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 (Public Law 90-23) OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and 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 CIN A-03-95-04011 in all correspondence relating to this report.

Sincerely yours,

Thomas J. Robertson
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to:

Director, Mid-Atlantic Office
Division of Cost Allocation
U.S. Department of Health and Human Services
Wilbur Cohen Building, Room 1067
330 Independence Avenue, S.W.
Washington, D.C. 20201



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Dr. Charles F. Sturtz
Vice President for Administrative Affairs
University of Maryland, College Park
1132 Main Administration Building
College Park, Maryland 20742

Dear Dr. Sturtz:

The purpose of this final audit report is to provide you with the results of our "REVIEW OF RECHARGE CENTER CONTROLS AT THE UNIVERSITY OF MARYLAND, COLLEGE PARK." The objective of our review was to determine whether the University operated its recharge centers in accordance with the Office of Management and Budget (OMB) Circular A-21. Our review was conducted in cooperation with the University of Maryland, College Park, (University), Comptroller's Office.

Our review determined that, with one exception (use of fund balances), the University's policies for recharge centers were in accordance with the provisions of OMB Circular A-21. We noted, however, that not all of the recharge centers properly implemented these policies (See Appendix A). Some recharge centers:

- ✓ did not periodically adjust billing rates to eliminate accumulated surpluses and deficits over a specified operating cycle and did not maintain adequate cost studies to support the billing rates;
- ✓ did not charge all users equitably;
- ✓ used funds for unrelated purposes; and
- ✓ included recharge center costs in the calculation of the indirect cost rate.

We are making procedural recommendations that, if implemented, will improve the University's compliance with OMB Circular A-21. We are also recommending that the University request its independent auditors to include the findings and recommendations of

this review in follow-up work performed in conjunction with the Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions.

By letter dated March 11, 1996, the University responded to a draft of this report. The University agreed with the recommendations made in the report. The full text of the University response is presented as Appendix B to this report.

BACKGROUND

The University is part of the University of Maryland System (System). The System is a component unit of the State of Maryland and is governed by its Board of Regents. For the Fiscal Year (FY) ended June 30, 1993, the System was awarded \$152.4 million, of which the University was awarded \$83.7 million in Federal research grants and contracts. In total, the University's revenues approximated \$564 million that fiscal year. According to the University, there were 44 recharge centers in FY 1993. Their total revenues and fund balances was \$38.8 million and \$7 million, respectively.

Costs charged to Federal grants and contracts from University recharge centers must meet requirements set forth in OMB Circular A-21. Section J.44 of the Circular defines recharge centers as facilities that provide specialized services and charge the users of those services on the basis of actual use. Charges to users should be based on established rates and should be designed to recover not more than the aggregate cost of the services over a long-term period. Section A.2.e. of the Circular provides that adequate documentation be retained to support the costs charged to sponsored agreements.

In July 1981, the System adopted the "Policy Governing Specialized Service Facilities to Comply with the Requirements of OMB Circular A-21: 'Cost Principles for Educational Institutions.'" This policy defines a specialized service facility (we refer to them as recharge centers) as:

"Any major activity that provides specific measurable services to users with total annual revenues of \$250,000 or more, at least \$100,000 of which are derived from charges to sponsored contracts and grants."

The policy also states:

"...although specific designation of these facilities is to be decided by each campus, examples of specialized service facilities may include: computer centers, animal facilities, wind tunnels, major reproduction facilities, and motor pools."

OBJECTIVE, SCOPE AND METHODOLOGY

Our review was conducted in accordance with generally accepted government auditing standards. The objective of the review was to determine whether the University operated recharge centers in accordance with OMB Circular A-21. Specifically, we reviewed a sample of recharge centers to determine whether the University:

- periodically reviewed and adjusted billing rates to eliminate accumulated surpluses and deficits over a specified operating cycle, and maintained adequate cost studies to support the billing rates;
- charged all users equitably;
- prevented recharge centers funds from being used for unrelated purposes; and
- excluded recharge center costs from the calculation of indirect cost rates.

As part of our review, we requested the University's Comptroller's Office to identify all recharge centers. The Comptroller's Office identified 44 recharge centers and assisted in the judgemental selection of 12 recharge centers for further review. Selections were based on several factors including total charges to Federal grants and contracts, unusual variations in fund balances, and transfers of funds. The recharge centers selected included the: Wind Tunnel, Physics Shops, Chemistry Stores, Physics Stores, Campus Photography, University Printing, TERP Employment Services, Computer Emporium, Laboratory for Animal Care, Behavioral and Social Science Copy Center, Computer Science Laboratory, and Computer Science Center Service and Maintenance. Revenues from the selected 12 recharge centers was \$11.9 million in FY 1993.

Our review consisted of evaluating the System's recharge center policies and procedures, and the University's controls over the 12 recharge centers. We conducted interviews, coordinated through the Comptroller's Office, of University personnel who were responsible for the operation of the selected recharge centers. The Comptroller's Office also assisted us in analyzing and interpreting the recharge center financial information. We also reviewed the independent auditor's reports prepared under OMB Circular A-133 for the periods ended June 30, 1991, June 30, 1992, and June 30, 1993 to identify any significant findings regarding the operation of recharge centers.

RESULTS OF REVIEW

In July 1981, the System adopted recharge center policies to comply with the provisions of OMB Circular A-21. The System's policies permit the designation of recharge centers by appropriate administrators of each campus or component of the System. Therefore, the

University, as a component of the System, has the authority to establish and operate recharge centers. The University adopted the System's policies that were, with one exception, generally in compliance with OMB Circular A-21. We noted, however, instances where some recharge centers did not comply with all of the University's policies. Specifically,

- ✓ of the three recharge centers reviewed to determine adequacy of billing rates, one did not adjust its billing rates to eliminate accumulated surpluses and deficits over a specified operating cycle, and did not maintain adequate cost studies to support the billing rates;
- ✓ of the four recharge centers reviewed to determine if they charged all users equitably one provided a discount rate to its largest customer, a private corporation;
- ✓ of the three recharge centers reviewed to determine if operating funds were used for unrelated purposes; one used its funds for unrelated purposes; and
- ✓ of the 12 recharge centers reviewed to determine if their costs were included in the calculation of the indirect cost rate, 2 recharge centers had their costs included in the calculation.

Billing Rates

We reviewed three recharge centers to determine the adequacy of their billing rates. We noted that one of the three recharge centers did not adjust its billing rates to eliminate accumulated surpluses and deficits over a specified operating cycle, and did not maintain adequate cost studies to support the billing rates.

Standards for determining and charging the costs of goods or services to federally sponsored agreements are prescribed in Section J.44.c of OMB Circular A-21. Section J.44.c of the Circular states:

"..Charges for the use of specialized facilities should be designed to recover not more than the aggregate cost of the services over a long-term period agreed to by the institution and the cognizant federal agency. Accordingly, it is not necessary that the rates charged for services be equal to the cost of providing those services during any one fiscal year as long as rates are reviewed periodically for consistency with the long-term plan and adjusted if necessary."

Section A.2.e of the Circular provides that adequate documentation be retained to support the costs charged to sponsored agreements. Section A.2.e of the Circular states:

"...the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements."

The University's policies generally complied with the provisions of OMB Circular A-21. One of the recharge centers reviewed, however, did not comply with the University's policy on billing rates. We noted that its billing rates were established 10 years ago and have not been adjusted to eliminate an accumulated surplus. We also noted that the same recharge center did not have appropriate cost studies to support the rates. If the billing rates are not reviewed and adjusted on a periodic basis, surplus and deficit fund balances may remain on the books and not be adjusted in subsequent billing rates.

Billing of Users

We reviewed four recharge centers to determine if they charged all users equitably. One of the three recharge centers provided a discount rate to its largest customer.

Section J.44.c of OMB Circular A-21 specifies that the billing rates should not discriminate between federal and nonfederal users. Section J.44.c states:

"The cost of such institutional services when material in amount will be charged directly to users, including sponsored agreements based on actual use of the services and a schedule of rates that does not discriminate between federally and nonfederally supported activities of the institution, including used by the institution for internal purposes."

The Compliance Supplement of OMB Circular A-133, Interim Guide to Allowable Costs/Cost Principles General Requirement of OMB Circular A-133, indicates that rate bases should include all university users and be treated in a consistent manner. The OMB Circular A-133 Compliance Supplement A.9.c. states that costs must be:

"..given consistent treatment with policies, regulations, and procedures applied uniformly to Federal and non-Federal activities of the organization."

The University's policies and procedures comply with the above provisions, but we noted that one of the recharge centers reviewed did not always comply with the policy. This recharge center charged a reduced rate to its largest customer, a private corporation. The reduced rate was based on volume.

Use of Funds

We reviewed three recharge centers to determine if operating funds were used for unrelated purposes. We noted that one of the three recharge centers used its funds for unrelated purposes. The University did not have a specific policy addressing the use of recharge center funds.

According to the Compliance Supplement of OMB Circular A-133, the Federal government should be refunded its fair share of any amounts which have been transferred out of the funds. The Compliance Supplement B.8.b.(c) states:

"Any retained or unexpended earnings (including reserves) are present and, if so, determine whether a refund has been made to the federal government for its fair share of any amounts thereof which have been removed (transferred out) or borrowed from the fund."

We noted an instance where a recharge center transferred a surplus balance of \$200,000 to another recharge center that had a deficit balance. We reviewed the subsequent fund balance activity and noted that as of the end of FY 1994 the recharge center that received the \$200,000 had not returned the funds to the center that made the initial fund balance transfer.

Indirect Cost Proposal

We reviewed 12 recharge centers to determine if their costs were included in the calculation of the indirect cost rate. We determined that 2 of the 12 recharge centers had their costs included in the indirect cost rate calculation.

The University's policies prohibited the inclusion of recharge center costs in the indirect cost rate calculation. We noted that 2 of the 12 recharge centers reviewed did not comply with this policy.

Section D, of the University's policies states:

"The University will not include service facility charges in the applicable indirect cost distribution and allocation bases developed for calculation of the indirect cost rates negotiated with the Federal Government. The University considers inclusion of these charges in the distribution and allocation bases to be inequitable to both the University and the Federal Government, and that such inclusion will result in additional recovery of costs previously included in the schedule of rates for each specialized service facility."

For 12 recharge centers, we made a limited assessment of the inclusion of fund balances, surplus and deficit, in the calculation of indirect cost rates. We determined that 10 of the recharge centers complied with the above University policy in that their costs were

excluded from the calculation of the research indirect cost rate. Costs associated with two of the recharge centers were included in the indirect costs of the Department Administration, which is allocated and used in the calculation of the negotiated organized research indirect cost rate. Because these costs were included in the indirect cost pools and used to calculate the indirect cost rate, the proposed indirect cost rate may have been overstated and may result in duplicate recovery.

CONCLUSIONS AND RECOMMENDATIONS

Our review disclosed that 5 of the 12 recharge centers selected for review did not comply with a University policy related to recharge centers. Four of these instances related primarily to noncompliance while one (use of fund balances) related to an absence of clear University policy.

We recommend that the University:

1. Develop a policy regarding the use of recharge center fund balances.
2. Ensure that the \$200,000 fund transfer between recharge centers is reversed.
3. Perform a self evaluation of the operations of all recharge centers to ensure compliance with OMB Circular A-21.
4. Request its independent auditors to include the findings and recommendations of this review in follow-up work conducted under OMB Circular A-133.

UNIVERSITY COMMENTS AND OIG RESPONSE

On March 11, 1996, the University responded to our February 9, 1996 draft report. The University accepted the recommendations. A working group has been established to review and revise the policies and procedures that govern the operations of recharge centers. Also, the Office of the Comptroller has established a unit to review the development of recharge center rates and the proper use of fund balances.

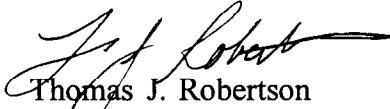
Final determinations as to actions to be taken on all matters reported will be made by the HHS official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe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

Page 8 - Dr. Charles F. Sturtz

In accordance with the principles of the Freedom of Information Act (Public Law 90-23) OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and 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 CIN A-03-95-04011 in all correspondence relating to this report.

Sincerely yours,



Thomas J. Robertson
Regional Inspector General
for Audit Services

Appendices

Direct Reply to:

Director, Mid-Atlantic Office
Division of Cost Allocation
U.S. Department of Health and Human Services
Wilbur Cohen Building, Room 1067
330 Independence Avenue, S.W.
Washington, D.C. 20201

SUMMARY OF DEFICIENCIES FOUND				
Recharge Centers	Billing Rates	Billing of Users	Use of Funds	Fund Balances in Indirect Cost Pool
Wind Tunnel		✓		
Physics Shop				
Chemistry Stores				✓
Physics Stores				
Campus Photography				
University Printing				
TERP Employment Services				
Computer Emporium			✓	
Lab for Animal Care	✓			
Behavioral and Social Service Copy Center				✓
Computer Science Center (CSC) Lab				
CSC Service and Maintenance				
Total	1	1	1	2



UNIVERSITY OF MARYLAND AT COLLEGE PARK

OFFICE OF THE VICE PRESIDENT FOR ADMINISTRATIVE AFFAIRS

March 11, 1996

Mr. Thomas J. Robertson
Regional Inspector General for Audit Services
Department of Health & Human Services
Region III
3535 Market Street
Philadelphia, PA 19104

Dear Mr. Robertson:

RE: CIN: A-03-95-04011

I have enclosed the University's responses to your draft report, "Review of Recharge Center Controls at the University of Maryland, College Park." The University accepts the recommendations made in the report. A working group has been established to review and revise policies and procedures that govern the operations of recharge centers. Also, a unit has been established within the Office of the Comptroller to review the development of recharge center rates and the proper use of fund balances. In reviewing the findings identified in the report, the University discovered that the Government paid less than full cost for the services provided. Our responses refer to the individual items contained in the report.

Sincerely,

A handwritten signature in cursive script that reads "Charles F. Sturtz".

Charles F. Sturtz
Vice President for
Administrative Affairs

CFS:slt

Enclosure

**Response to the Review of Recharge Center Controls
at the University of Maryland College Park
February 1996
CIN: A-03-95-04011**

Billing Rates

The University agrees that the Laboratory for Animal Care did not have appropriate cost studies to support the rates used to bill customers and further that the billing rates were not reviewed to determine the adequacy of those rates. In reviewing the billing rates of the center it was discovered that the billing rates were dramatically below cost as a result of a substantial University subsidy. Accumulated deficits were a result of the subsidy not excessive billing rates. The University has established a unit within the Comptroller's Office to review recharge center billing procedures and rates.

Billing of Users

The University agrees that Wind Tunnel charged reduced rates to an external user based on volume. The recharge center also charged all other users at its normal billing rates. Federal contracts and grants represented 4% of the unit's billings. The University is in the process of revising its policies for the setting of rates for recharge centers. These policies will preclude the centers from providing discounts to certain users.

Use of Funds

The University agrees that the a surplus balance of \$200,000 was transferred between the Computer Emporium and the Service And Maintenance Unit (SAM). Federal contracts and grants represented 1% of the Computer Emporium's billings. The University is in the process of revising its policies that govern the use of recharge center fund balances. Both the Computer Emporium and the SAM Unit have been closed. Computers are now being sold by the book store and the maintenance of computers is being outsourced.

Indirect Cost Proposal

The University agrees that deficits resulting from the operations of the Behavioral and Social Science Copy Center and the Chemistry Stores were included in the Departmental Administrative pool of the indirect cost proposal. The deficits resulted from under charging customers including Federal contracts and grants. The Departmental Administrative pool is combined with other administrative costs to form the administrative component of the indirect cost rate. This grouping of costs is capped at 26 points by OMB Circular A-21. The University's indirect proposal contained an administrative component of 36.75 points resulting in a forfeiture of several million dollars of cost. The center deficits are included in that forfeiture. Consistent with its policy, the University has not included operational deficits of recharge centers in the administrative component of the subsequent indirect cost proposal.