



JUN 5 2003

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

Report Number : A-01-02-01502

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

Dear Mr. Mucciolo:

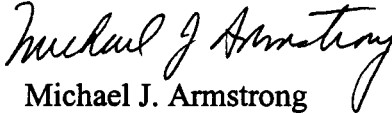
Enclosed are two copies of the U.S. Department of Health and Human Services (HHS) Office of Inspector General, Office of Audit Services' report entitled "Northeastern University DHHS Grant Costs" for the periods reviewed for Grant #1 was May 1994 through April 2000 and January 1997 through December 2001 for Grant #2. 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.)

If you have any questions, please contact Ms. Lori Pilcher, Audit Manager, at (617) 565-2685. To facilitate identification, please refer to Report Number A-01-02-01502 in all correspondence relating to this report.

Sincerely,


Michael J. Armstrong
Regional Inspector General
For Audit Services

Enclosures - as stated

Direct reply to NIH Action Official:

Suzanne Servis, Director
Office of Management Assessment
National Institutes of Health
6011 Executive Blvd. Room 601
Mail Stop – MSC 7669
Rockville, Maryland 20852

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NORTHEASTERN UNIVERSITY
DHHS GRANT COSTS**



**JUNE 2003
A-01-02-01502**

Office of Inspector General

<http://oig.hhs.gov>

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184 Richard Hall
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Dear Mr. Mucciolo:

We are providing you with the results of our review of the two grants awarded by the National Institutes of Child Health and Human Development (NICHD). The objective of our review was to determine whether the costs claimed by Northeastern University were allowable, allocable, and reasonable under the terms of the contract and applicable Federal regulations.

Our review of \$1.9 million in cost claimed for two grants identified \$102,378 that did not meet Federal requirements.

INTRODUCTION

BACKGROUND

One of the missions for Northeastern University (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. We reviewed the following two grants from NICHD:

- Grant #1 – \$1,390,789 was awarded to provide scientific and technical support in the area of “Molecular Basis of the Ped Gene Phenotype” from May 1994 through April 2000. In this project, researchers analyzed an embryonic gene, called Ped, to determine the rate (fast or slow) at which preimplantation mouse embryos cleave. This is significant since faster cleaving embryos have a survival advantage in both mouse and man. In addition, the gene has other effects on reproduction, including effects modifying litter size, birth weight, and weaning weight. The Ped gene provides a well-defined model system for the study of early embryonic development and reproductive success.
- Grant #2 – \$521,906 was awarded to provide scientific and technical support in the area of “Postnatal Maternal Entrainment of Circadian Rhythms” from January 1997 through

December 2001. The grant's objective was to elucidate the mechanism and significance underlying the behavioral mode of postnatal maternal entrainment. The specific aims were to test five hypotheses as follows: 1) there is maternal entrainment in animals and it acts by means of a circadian mechanism; 2) temperature acts as an entraining signal; 3) olfaction may play a role in maternal entrainment; 4) the possible involvement of ingestive cues in entraining pups' rhythm; and 5) maternal entrainment will not occur after the time when young animals reach sexual maturation.

SCOPE

We conducted our review in accordance with generally accepted government auditing standards. The objective of our review was to determine whether the costs claimed by the University were allowable, allocable, and reasonable under the terms of the contract and applicable Federal regulations.

Our review of the two grants included:

- 1) reconciling costs claimed by the University to support accounting records;
- 2) verifying overhead and fringe benefit rates to the Department of Health and Human Services' Division of Cost Allocation approved rates, and
- 3) ensuring direct labor and other direct costs (e.g. materials and supplies, equipment and travel expenses) were adequately supported by documents.

We limited our review of the internal controls to the processes used by the University to claim costs for Federal reimbursement. The period reviewed for Grant #1 was May 1994 through April 2000, and January 1997 through December 2001 for Grant #2.

We conducted our audit during the period of April 2002 through March 2003 at Northeastern University in Boston, Massachusetts and at our regional office. We issued a draft report to Northeastern University on April 4, 2003. On May 1, 2003, the University provided us with their comments (See APPENDIX). The information provided was analyzed and numeric facts in the findings were adjusted when warranted.

RESULTS OF AUDIT

We identified \$102,378 in the following costs for both grants that did not meet Federal regulations:

- \$65,286 in unsupported direct labor and fringe benefits;
- \$6,437 from using the incorrect indirect cost rate;
- \$11,259 in undocumented purchases; and
- \$19,396 in related indirect costs.

DIRECT LABOR AND RELATED FRINGE BENEFITS

We reviewed direct labor charges for two employees for Grant #1 and found that supporting time records could not be located for the (1) principal investigator for July and August 1999, and (2) animal caretaker from May 1999 through April 2002. Federal regulations for financial management systems require accounting records to be supported by source documents. Further, University procedures states “Government audit regulations require monthly submissions of PARS. Undocumented effort will be charged to operational budgets.” As a result, the costs claimed were overstated by \$65,286 (\$60,495 in direct labor and \$4,791 in related fringe benefits).

INDIRECT COSTS

We found that the University used the incorrect indirect cost rate for Grant #2. Specifically, the University used the rate of 58 percent that was in effect for when the grant proposal was prepared, instead of the correct rate of 56 percent that was in effect at the time of the approved grant. Federal regulations require the use of negotiated rates in effect at the time of the initial award throughout the life of the sponsored agreement. As a result, the costs claimed were overstated by \$6,437.

PURCHASES

For Grant #1, we reviewed all 290 credit card purchase totaling \$49,577, and found that 92 could not be supported by source documents. All of the credit card purchases we reviewed for Grant #2 were adequately supported. Federal regulations for financial management systems require accounting records to be supported by source documents. Further, University procedures require that adequate documentation for credit card purchases must be maintained for seven years. While the University assigns a unique credit card to each grant to account for related supplies and travel expenses, it has not provided supporting receipts to date. As a result, the costs claimed were overstated by \$14,707.

While nothing came to our attention for the manual purchases we tested, we could not adequately assess the internal controls for purchases made through the University’s electronic purchasing system (EPS). University procedures only allow purchasing staff to commit funds and to sign purchase orders when a purchase order is transaction method. The EPS requires the approval of purchase orders. In addition, receiving records and invoice information (e.g., unit of measure, quantities, quality of goods, amount) must be inputted and electronically matched before a payment can be generated. Interviews with University officials indicated that the electronic purchase order is signed by the appropriate individual before sending the original form to the vendor. A copy of the signed purchase order is maintained on file. Our review of the 22 electronic purchases noted the following:

- 4 of 22 did not have a signed hard copy purchase order;
- 22 of 22 purchases could not be supported by hard copy receiving records; and
- 19 of 22 hard copy invoices did not indicate there was a supervisory approval.

Because we have not received the above documents to date, we cannot conclude whether the 22 purchases of \$31,126 (\$8,283 for Grant #1 and \$22,843 for Grant #2) adequately complied with Federal regulations.

OVERSTATED INDIRECT COSTS

Because indirect costs for both grants were calculated by applying the appropriate indirect cost rate to total direct cost, we adjusted the effect of the above overstated direct costs to Grant #1 in the same manner. The table below summarizes our results.

	Grant #1
Direct Labor and Fringe Benefits	\$ 25,180
Purchases	8,260
Total Direct Costs	33,440
Overstated Indirect Costs	\$ 19,396

*The indirect cost rate ranged from 56 to 58.5 percent for the grant.

As a result, indirect costs were overstated by \$19,396 for Grants #1.

RECOMMENDATIONS

We recommend that the University:

- ensure that the supporting documentation is maintained for grant expenditures; and
- reimburse the Federal Government \$102,378 for the two grants combined;

AUDITEE COMMENTS AND OIG RESPONSE

Direct Labor and Related Fringe Benefits

Auditee Comments

Principal Investigator Salary and Fringe Benefits

The University acknowledged that the employee did not prepare a PARS form and claims that the additional records provided clearly indicates that the PI worked full-time on Grant #1 during July and August 1999. As a result, \$20,389 in salaries and \$4,791 in related fringe benefits and indirect costs is allowable.

OIG Response

It is our opinion that the cost incurred for summer salaries was not adequately supported and should be disallowed. Our review of the subsequently provide documents noted that :

- the “Extra Compensation Request Form – Research, Summary Salary,” was prepared and dated August 24, 1999. The PI had worked from July 1999 through August 1999.;
- the PARS form provided was prepared, signed and approved on April 23, 2003; and
- a note from the PI attesting that she had spent 100 percent of her effort on the grant during July and August 1999 was dated April 23, 2003.

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

- effort reporting, via monthly PARS, for all federally funded projects. Undocumented efforts will be charged to operational budgets;
- effort reporting for summer salary; and
- timely submission of PARS.

Effective internal controls for the processing of payroll transactions should:

- be properly authorized and prepared each period, and
- include accurate, complete and timely effort reporting in accordance with budget, program, and pay and personnel regulations.

Although the request to earn extra compensation was approved in proximity to when the work was performed, PARS documenting actual time spent on the grant by the PI were not prepared and approved when work was performed. Instead, alternative forms were provided nearly three years later, after our draft report was issued. Accordingly, the payroll transactions did not comply with federal and University regulations and the \$25,180¹ should be disallowed.

¹ \$20,389 in direct labor and \$4,791 in related fringe benefits.

Animal Care Charges

Auditee Comments

Direct labor charges of \$40,106 for an animal care technician were actually indirect costs charged by the animal service center and not subject to the University's effort reporting requirements. The confusion over the nature of these costs was caused by the fact that the animal

care service center charged the grant for its services based on the average salary of an animal caretaker, rather than the standard animal per diem rate it normally charges for animal care services. The University claims that the rate based on average salary was less than the per diem, resulting in an understatement of \$6,759. Accordingly, the \$40,106 for the animal care service center is allowable.

OIG Response

In our opinion, the cost incurred for the animal car technician is direct cost and should be disallowed. OMB Circular A-21 states that:

- direct cost are those costs can be identified specifically with a particular sponsored project, and instructional activity, or any other institutional activity, or that can be directly assigned to such activities related easily with a high degree of accuracy; and
- indirect costs are those that are incurred from common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, and instructional activity, or any other institutional activity.

Our review of the documents obtained during the audit indicates that the Principal Investigator (PI) requested \$42,842 in additional funding for an animal caretaker's salary dated July 6, 1999 from NIH. The PI's request to NIH, stated that \$40,000 in administrative supplement is needed to support a mouse colony and that the supplement will be used to fund the animal caretaker's salary. For the NIH grant of \$67,905² was awarded on August 17, 1999 and to be used for the sole purpose of an animal caretaker's salary. The grant award specifically states that these funds may not be used for any other purpose without the written prior approval of the awarding office.

The University used the funds to pay for animal care services specifically for the grant (direct cost) as opposed to benefit their service projects (indirect cost). Accordingly, the \$40,106 is a direct labor cost that should be supported by time records salaries are direct cost and should be supported by time records, and the amount of \$40,106 in salaries should be disallowed.

² \$34,690 in salaries, \$8,152 in fringe benefits and \$25,063 in related indirect costs.

Indirect Costs

Auditee Comments

The University acknowledges that the incorrect indirect cost rate of 58 percent was applied to Grant #2 and agreed that \$6,437 of indirect costs were overstated.

Purchases

Auditee Comments

The University believes that the \$14,707 is an allowable cost. To date, the University has provided supporting documents for 25 credit card purchases totaling \$4,719. Because some of the original documents were inadvertently thrown away, it may be problematic whether the University will be able to locate the missing documents for the remaining 67 purchases.

However, related costs should be allowed because:

- the credit card process and procedures are effective and in compliance with federal regulations;
- each credit card is assigned to one grant;
- the PI will attest to the charges; and
- other purchases with the same vendors can be support by original documents.

OIG Response

It is our opinion that \$11,259 of \$14,707 in credit card purchases should be disallowed because the University cannot adequately support these purchases with source documents, and federal and University procedures were not followed.

We reviewed the documents the University subsequently provided for 25 credit card purchases and found that 19 of the purchases could be adequately supported. As a result, we allowed \$3,448 of the \$4,719 for these 25 purchases. However, the remaining six purchases of \$1,271 were either:

- handwritten with no date or approval, or
- not included in the 92 credit card charges we questioned.

OMB A-110 requires the financial management systems for grant recipients to provide for accounting records supported by documentation. University procedures for credit card users requires:

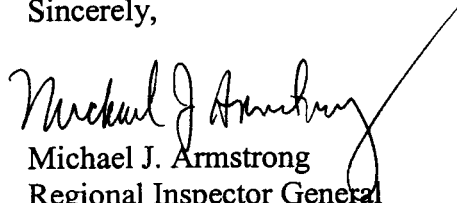
- adequate documentation must be maintained to record the transaction at the source;

Page 8 – Mr. Laurence F. Mucciolo

- proper documentation (receipts, packing slips including the dollar amount, etc.) should be maintained to support procurement credit card transactions; and
- storage of credit card receipts for seven years.

Because supporting documents have not been received to date \$11,259 in unsupported credit card purchases should be disallowed.

Sincerely,



Michael J. Armstrong
Regional Inspector General
for Audit Services

APPENDIX



May 1, 2003

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

RE: Draft Audit Report Number A-01-02-01502
Northeastern University DHHS Grant Costs

Dear Ms. Pilcher:

I write in response to your request regarding the above-referenced draft audit report. The University's comments on each audit finding are provided below.

Direct labor and Related Fringe Benefits

(1) Principal Investigator Salary and Fringe Benefits - \$20,389, \$4,791

This finding concerns the summer salary of Dr. Carol Warner, the PI on NIH grant HD 31505, for the two-month period July 1, 1999 to August 31, 1999. The salary charge was questioned by the auditors because "...supporting time records could not be located...."

University's position: Although formal Personnel Activity Reports were not prepared for Dr. Warner for this two-month period, an alternative record clearly indicates that she worked full-time on this grant during the two-month period involved. The alternate record, an Extra Compensation Request Form - Research (Attachment A), was signed by Dr. Warner and approved by Mr. Richard McNeil, Director of the Division of Sponsored Research on August 24, 1999 and specifically indicated that the summer compensation was paid for "Research on HD 31505 (NIH)." This research project was Dr. Warner's sole responsibility during the summer of 1999 and she would have not been paid this summer salary had she not worked 100% on the project. She had no teaching duties or any other responsibilities during this period. As further evidence that she worked full-time on the project during this period, we have asked her to attest to this fact in the attached statement and Personnel Activity Report (Attachments B and C.) Since she clearly provided the services to the grant, we believe strongly that these costs are allowable.

(2) Animal Care Charges - \$40,106

This finding involves charges to grant HD 31505 for animal care services from May, 1999 through April, 2002. These costs are characterized in the draft audit report as "direct labor charges" and were questioned by the auditors because "...supporting time records could not be located...."

University's Position: These costs are service charges for animal care by the University's animal care service center. Since they are service center charges, not direct labor costs, they are not subject to the University's Personnel Activity Reporting System. The confusion over the nature of these costs was caused by the fact that the animal care service center charged the grant for its services based on the average salary of an animal caretaker, rather than the standard animal per diem rates it normally charges for animal care services. However, the fact that the charges were based on the average salary of an animal caretaker instead of standard per diem rates does not change the nature of the charges as services center charges. The animal care service center charged the grant in this manner because of unusual circumstances surrounding this project involving the loss of several thousand mice due to a virus. When the mice were replaced, an attempt was made to conserve grant funds by reducing the animal care charges for the new colony. This arrangement reduced the charges to the grant, because the average salary of an animal caretaker was less than the standard per diem charges for the number of animals involved. As shown on the schedule in Attachment D, the charges to the grant based on the standard per diem rates would have been \$46,865, or \$6,759 more than the \$40,106 actually charged. Thus, the grant was undercharged by this amount. Since the animal care charges based on the standard per diem rates are allowable costs of the grant, we believe that the lower amount charged to the grant is proper and reasonable.

Indirect Costs - \$6,437

Agreed. In error, the University used the 58% rate included in the awarding document, as the indirect cost rate for the grant.

Purchases - \$14,707

On Grant #1, we asked the site auditor to provide the list of the 136 detail credit card (Procard) purchases so that we could further substantiate the validity of the purchases. On 4/23/03, the University requested the detail and on 4/25/03 we received from the site auditor the details for the procard purchases that were missing source documentation. The actual number of missing items was 90, which totaled \$14,707. From our initial effort we have been able to find source documentation for 25 items totaling \$4,719. A copy of this support is enclosed (see attachment # E). We request

additional time (30 days) to pursue the supporting documentation for the remaining 65 items. We acknowledge that some of the original documentation (all in 1997-98 period) was inadvertently thrown away. This information was conveyed to the site auditors. While it is problematic whether the University will be able to locate all the missing supporting documentation, we don't believe this fact alone should result in disallowance of these costs. Our reasons are as follows:

- 1) The overall Procard process and procedures are effective and in compliance with federal regulations
- 2) In the Procard program, each credit card has one and only one grant for cost distribution purposes.
- 3) The Principal Investigator, Dr. Carol Warner, will attest to the fact that she reviewed her grant monthly and would have found and corrected any erroneous charges by procard activity. There is evidence of this review in her grant files.
- 4) The vendors for which supporting documentation is still missing are consistent with vendors that were properly documented.

Open Purchase Transactions

Enclosed for your review are purchase requisition and /or purchase orders for 21 of the 22 open transactions. (Attachment F)

If you have any questions on this material please call either John Harris (617)373-5158, or myself.

Sincerely,



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