

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**UNIVERSITY OF CALIFORNIA,
SAN DIEGO, GENERALLY CLAIMED
ADMINISTRATIVE AND CLERICAL
PAYROLL COSTS CHARGED
DIRECTLY TO HHS AWARDS
IN ACCORDANCE WITH
FEDERAL REGULATIONS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



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Regional Inspector General
for Audit Services

June 2014
A-09-12-01001

Office of Inspector General

<https://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

For a 2-year period, the University of California, San Diego, generally claimed administrative and clerical payroll costs charged directly to HHS awards in accordance with Federal regulations. However, a small amount of costs was unallowable.

WHY WE DID THIS REVIEW

The Department of Health and Human Services (HHS) award administration rules require recipients of awards to ensure that costs charged to those awards are allowable under applicable Federal regulations. The University of California, San Diego (the University), received significant funding from HHS awards, including funding from the American Recovery and Reinvestment Act (Recovery Act). In fiscal year 2010, the University received \$485.9 million from HHS awards and \$73.4 million from the Recovery Act. This review was performed as part of a series of Office of Inspector General reviews conducted at colleges and universities to determine whether administrative and clerical costs were claimed in accordance with Federal requirements.

Our objective was to determine whether the University claimed reimbursement for administrative and clerical payroll costs charged directly to HHS awards in accordance with Federal regulations and applicable guidelines.

BACKGROUND

By accepting HHS awards, the University agreed to comply with regulations governing the use of Federal funds and to ensure that costs charged to those awards were allowable under the cost principles established in 2 CFR part 220, Appendix A. The regulations governing the allowability of direct costs charged to Federal grants, contracts, and other agreements require that, to be allowable, a direct cost must be reasonable, be allocable, be treated consistently, and conform to any limitations or exclusions set forth in the cost principles.

The regulations state that payroll costs of administrative and clerical staff should normally be treated as facilities and administrative (F&A) costs. However, direct charging of these costs may be appropriate for a major project that explicitly budgets for administrative or clerical services and in which the individuals involved can be specifically identified with the project.

The University, located in La Jolla, California, is a publicly funded institution of higher education and 1 of the 10 campuses of the University of California system. At the University, administrative and clerical services are generally provided by regular and general assistance employees.

HOW WE CONDUCTED THIS REVIEW

Our review covered payroll costs of \$119.9 million claimed by the University from October 1, 2008, through September 30, 2010, for regular and general assistance employees.

We limited our review to administrative and clerical payroll costs charged as direct costs to grants, contracts, and other agreements between the University and components of HHS, including the National Institutes of Health and the Public Health Service. We reviewed a stratified random sample of 200 monthly payroll payment records.

WHAT WE FOUND

The University generally claimed reimbursement for administrative and clerical payroll costs charged directly to HHS awards in accordance with Federal regulations and applicable guidelines. Of the 200 sampled monthly payroll payment records, 195 were allowable, and 5 were unallowable. The five unallowable sample items totaled \$3,765, consisting of \$2,510 of unallowable direct administrative and clerical payroll costs and \$1,255 of related F&A costs. The University claimed unallowable costs because it did not always provide adequate oversight of administrative and clerical payroll costs charged directly by departments to HHS awards to ensure compliance with Federal regulations.

WHAT WE RECOMMEND

We recommend that the University:

- refund \$3,765 to the Federal Government and
- enhance oversight of administrative and clerical payroll costs charged directly to HHS awards to ensure compliance with Federal regulations.

UNIVERSITY COMMENTS AND OUR RESPONSE

In written comments on our draft report, the University concurred that four of the five sampled monthly payroll payment records were unallowable. The University agreed to refund \$1,766 to the Federal Government for two of the sample items and stated that it had made corrections to the HHS awards for the remaining two sample items. However, the University did not concur with our disallowance for one sample item and maintained that the payroll costs for the individual were appropriately charged directly to the HHS award. Regarding our second recommendation, the University stated that it had communicated our findings to the appropriate University officials and would continue to provide education and guidance on appropriate charging of administrative and clerical costs. However, the University stated that because of the small number and dollar value of the errors, it did not believe a change in business practices for charging or supporting effort on sponsored awards was warranted.

After reviewing the University's comments, we concluded that the University did not provide adequate documentation to substantiate that the administrative costs charged directly to the HHS award were allowable. We continue to recommend that the University refund to the Federal Government the unallowable cost for this sample item. In addition, we continue to recommend that the University enhance its oversight of administrative and clerical payroll costs charged directly to HHS awards to ensure compliance with Federal regulations.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Department of Health and Human Services (HHS) award administration rules require recipients of awards to ensure that costs charged to those awards are allowable under applicable Federal regulations.¹ The University of California, San Diego (the University), received significant funding from HHS awards, including funding from the American Recovery and Reinvestment Act (Recovery Act). In fiscal year 2010, the University received \$485.9 million from HHS awards and \$73.4 million from the Recovery Act. This review was performed as part of a series of Office of Inspector General (OIG) reviews conducted at colleges and universities to determine whether administrative and clerical costs were claimed in accordance with Federal requirements. (See Appendix A for a list of related OIG reports.)

OBJECTIVE

Our objective was to determine whether the University claimed reimbursement for administrative and clerical payroll costs charged directly to HHS awards in accordance with Federal regulations and applicable guidelines.

BACKGROUND

Federal Regulations for Determining Allowability of Costs

By accepting HHS awards, the University agreed to comply with regulations governing the use of Federal funds and to ensure that costs charged to those awards were allowable under the cost principles established in 2 CFR part 220, Appendix A (formerly the Office of Management and Budget Circular A-21). The regulations governing the allowability of direct costs charged to Federal grants, contracts, and other agreements require that, to be allowable, a direct cost must be reasonable, be allocable, be treated consistently, and conform to any limitations or exclusions set forth in the cost principles. Consistent treatment of costs means that costs incurred for the same purpose, in like circumstances, must be treated uniformly either as direct costs or facilities and administrative (F&A) costs.²

The regulations provide that payroll costs of administrative and clerical staff should normally be treated as F&A costs and that the applicable portion of these costs should be recovered through the F&A rates negotiated with the Federal Government. However, direct charging of these payroll costs may be appropriate for a major project that explicitly budgets for administrative or

¹ HHS administrative rules are incorporated in 45 CFR part 74, *Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial Organizations*, and provide that the allowability of costs incurred by institutions of higher education is determined in accordance with the provisions of 2 CFR part 220.

² Direct costs are “those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity ...” (2 CFR part 220, Appendix A, § D.1). F&A costs are “those 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” (2 CFR part 220, Appendix A, § E.1).

clerical services and in which the individuals involved can be specifically identified with the project. The regulations define a major project as one that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services normally provided by academic departments.

University of California, San Diego

The University, located in La Jolla, California, is a publicly funded institution of higher education and 1 of the 10 campuses of the University of California system. At the University, administrative and clerical services are generally provided by regular and general assistance employees. From October 1, 2008, through September 30, 2010, the University claimed payroll costs for regular and general assistance employees totaling \$119.9 million.

University Award Administration

The University's Office of Contract and Grant Administration is responsible for issues and inquiries related to proposal development and preaward activities. The Office of Post Award Financial Services is responsible for project accounting, financial reporting, and effort certifications. This office certifies to funding agencies that award expenditures comply with award financial terms and conditions, including 2 CFR part 220, as well as University policies.

Principal investigators (PIs)³ and University departments are responsible for ensuring that all direct costs proposed and incurred meet the Federal and University requirements for proposing and charging of direct costs. The University uses after-the-fact activity reports generated by its effort-reporting system to support actual effort expended on federally sponsored projects. These reports are electronically certified by the employee, PI, or responsible official. The effort-reporting system is a University of California Web-based system used at various campuses, including the University's.

HOW WE CONDUCTED THIS REVIEW

Our review covered payroll costs of \$119,926,937 claimed by the University from October 1, 2008, through September 30, 2010, for regular and general assistance employees. We limited our review to administrative and clerical payroll costs charged as direct costs to grants, contracts, and other agreements between the University and components of HHS, including the National Institutes of Health (NIH) and the Public Health Service.⁴

To determine the allowability of the administrative and clerical payroll costs charged as direct costs to HHS awards, we reviewed a stratified random sample of 200 monthly payroll payment

³ The PI is the individual who has the appropriate level of authority and responsibility to direct the project or program supported by the award. The PI is accountable to the awarding agency for the proper conduct of the project or program, including the submission of all required reports.

⁴ We will issue a separate report on our review of the University's administrative costs other than payroll costs charged directly to HHS awards.

records, totaling \$503,863.⁵ A small number of the sample items were charged to Recovery Act awards. For each sample item, to confirm that the employee worked on the HHS award to which his or her payroll costs were allocated, we relied on after-the-fact activity reports provided by the University from its Web-based effort-reporting system.

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.

Appendix B contains the details of our audit scope and methodology.

FINDINGS

The University generally claimed reimbursement for administrative and clerical payroll costs charged directly to HHS awards in accordance with Federal regulations and applicable guidelines. Of the 200 sampled monthly payroll payment records, 195 were allowable, and 5 were unallowable. The five unallowable sample items totaled \$3,765, consisting of \$2,510 of unallowable direct administrative and clerical payroll costs and \$1,255 of related F&A costs.⁶ The University claimed unallowable costs because it did not always provide adequate oversight of administrative or clerical costs charged directly by departments to HHS awards to ensure compliance with Federal regulations.

FEDERAL REQUIREMENTS

The regulations in 2 CFR part 220, Appendix A, provide cost principles for determining the allowability of costs, including the following: (1) costs incurred for the same purpose in like circumstances must be treated consistently either as direct or F&A costs (§ D.1); (2) direct charging of administrative or clerical payroll costs may be appropriate for a major project or activity that explicitly budgets for administrative or clerical services and in which the individuals involved can be specifically identified with the project or activity (§ F.6.b.(2)); (3) the costs of an award comprise allowable direct costs less any applicable credits (§ C.1), and (4) after-the-fact activity reports will be signed by the employee, PI, or responsible officials (§ J.10.c.(2)(c)).

See Appendix C for details on the applicable Federal regulations.

⁵ The sample consisted of 193 randomly selected monthly payroll payment records that were greater than \$100 and less than or equal to \$14,000, and all monthly payroll payment records that exceeded \$14,000 (7 records), totaling 200 sample items.

⁶ Because we determined that only a small number of sample items were unallowable, we questioned the actual unallowable payroll costs but did not estimate a disallowance for the population.

THE UNIVERSITY CLAIMED SOME UNALLOWABLE ADMINISTRATIVE AND CLERICAL PAYROLL COSTS

The University claimed reimbursement for some unallowable administrative and clerical payroll costs, including costs that were not treated consistently, costs charged directly to an award that was not a major project, costs for which applicable credits were not used to offset allowable costs, and costs charged directly to a major project for which an after-the-fact activity report was not certified. The University also claimed unallowable related F&A costs.

Costs Were Not Treated Consistently

For one sample item, the University claimed \$920 of unallowable administrative payroll costs for an assistant department business officer of a research unit's business office. Bid and proposal activities are normally treated as F&A costs. The grant progress report stated that the research unit's business office was instrumental in preparing large-scale grants, multiple applications for Recovery Act grants, and cancer center support grants. Because the employee worked on business aspects of these bid and proposal activities, the employee's payroll costs were not allowable direct charges to the HHS award.

Award Was Not a Major Project

For one sample item, the University claimed \$782 of unallowable clerical payroll costs for a fund manager. The costs were charged directly to an HHS award that was not a major project. The project did not conform to the examples of a major project in Exhibit C of 2 CFR part 220, such as grants and contracts that entail assembling and managing teams of investigators from a number of institutions and projects that require extensive data accumulation, analysis, and entry. In addition, the project did not explicitly budget for administrative and clerical services.

Applicable Credits Were Not Used To Offset Allowable Costs

For two sample items, the University claimed \$441 of unallowable clerical payroll costs charged to two HHS awards for two employees. Applicable credits were not used to offset the allowable clerical payroll costs. The University's policy is to charge vacation as it is earned to the projects an employee is working on and to provide an offset when vacation is taken. The two employees had taken vacations; however, because of clerical errors, the departments did not apply the applicable credits to the HHS awards.

After-the-Fact Activity Report Was Not Certified

For one sample item, the University claimed \$367 of unallowable clerical service costs charged directly to a major project for one employee. The employee's after-the-fact activity report for the major project was not certified by the employee, PI, or responsible official. The costs were claimed because of a lack of departmental oversight.

Related Facilities and Administrative Costs Were Unallowable

For the five sample items, the University claimed \$1,255 of unallowable F&A costs related to the unallowable direct payroll costs of \$2,510 charged to HHS awards. To determine the amount of unallowable F&A costs claimed, we applied the University's applicable F&A cost rate to the monthly payroll payment record amounts determined to be in error.

RECOMMENDATIONS

We recommend that the University:

- refund \$3,765 to the Federal Government and
- enhance oversight of administrative and clerical payroll costs charged directly to HHS awards to ensure compliance with Federal regulations.

UNIVERSITY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the University partially agreed with our findings and recommendations. The University's comments are included as Appendix D. We did not include the University's attachments supporting corrections that it made to HHS awards because the attachments contained personally identifiable information.

UNIVERSITY COMMENTS

The University concurred that four of the five sampled monthly payroll payment records were unallowable. The University agreed to refund \$1,766 to the Federal Government for two of the sample items and stated that it had made corrections to the HHS awards for the remaining two sample items. However, the University did not concur with our disallowance for one sample item for costs that were not treated consistently. The University maintained that the payroll costs for the individual were appropriately charged directly to the HHS award. The University stated that 67 percent of the employee's effort was allocated to the HHS award and 33 percent was allocated to nonsponsored activities. The University also stated that OIG cannot conclude on the basis of the progress report alone that preaward activities were not allocated to nonsponsored activities but acknowledged that the documentation provided may not have adequately supported the sample item.

Regarding our second recommendation, the University stated that it had communicated our findings to the appropriate University officials and would continue to provide education and guidance on appropriate charging of administrative and clerical costs. However, the University stated that because of the small number and dollar value of the errors, it did not believe a change in business practices for charging or supporting effort on sponsored awards was warranted.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the University's comments, we concluded that the University did not provide adequate documentation to substantiate that preaward activities (i.e., bid and proposal activities) were allowable direct costs under the Federal award. The progress report described only those types of activities for the individual. Bid and proposal activities are F&A activities and are not normally charged directly to Federal awards. Because the University acknowledged that the documentation it provided may not have adequately supported the sample item, we continue to recommend that the University refund to the Federal Government the unallowable cost for this sample item.

Regarding our second recommendation, although the number of sample items found to be unallowable was small, our findings indicate that University oversight of administrative and clerical costs charged directly to HHS awards is warranted. We continue to recommend that the University enhance its oversight of administrative and clerical payroll costs charged directly to HHS awards to ensure compliance with Federal regulations.

OTHER MATTER

A UNIVERSITY DEPARTMENT DID NOT FOLLOW FEDERAL GUIDELINES AND UNIVERSITY POLICY FOR REPORTING IMPROPER GOVERNMENTAL ACTIVITY

The NIH Grants Policy Statement states that any individual who becomes aware of the existence (or apparent existence) of fraud, waste, or abuse related to NIH grants or grant funds should consider contacting the institution's responsible officials. In addition, the University of California Policy on Reporting and Investigating Allegations of Suspected Improper Government Activities specifies the reporting and investigation of improper governmental activities.

In November 2010, a University department failed to follow the NIH Grants Policy Statement and University policy by not reporting to the University's local designated official (LDO) an alleged improper governmental activity by one part-time employee. The LDO has principal responsibility for meeting the reporting requirements and responsibility for ensuring that independent, unbiased, and competent investigative resources are used to conduct investigations of suspected improper governmental activity. Because the department did not report the alleged improper governmental activity to the LDO, the University's ability to ensure an appropriate response and protection of the rights of all involved parties was affected. For example, the employee continued to work on an NIH award even after admitting improper activity to the department and was not interviewed by appropriate University officials, such as campus police or University internal investigators. The employee left the University before an investigation was initiated.

Almost a year after the department became aware of the suspected improper activity, the University transferred the improper payroll costs out of the NIH awards, initiated an investigation into the alleged improper activity, and finally issued an investigative report in May 2012 to University officials and the Office of the President.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>The University of South Florida Did Not Always Claim Costs in Accordance With Federal Regulations</i>	<u>A-04-12-01016</u>	4/25/2014
<i>The University of Colorado Denver Did Not Always Claim Selected Costs Charged Directly to Department of Health and Human Services Awards in Accordance With Federal Regulations</i>	<u>A-07-11-06013</u>	6/7/2013
<i>Thomas Jefferson University Generally Claimed Selected Costs Charged to Department of Health and Human Services Awards in Accordance With Federal Regulations</i>	<u>A-03-11-03300</u>	6/4/2013
<i>Review of Select Expenditures Claimed by The Research Foundation of the State University of New York, State University of New York at Stony Brook</i>	<u>A-02-11-02008</u>	8/28/2012
<i>Florida State University Did Not Always Claim Selected Costs Charged Directly to Department of Health and Human Services Awards in Accordance With Federal Regulations and National Institutes of Health Guidelines</i>	<u>A-04-11-01095</u>	7/19/2012
<i>Review of Administrative and Clerical Costs at The Ohio State University for the Period July 1, 2008, through June 30, 2010</i>	<u>A-05-11-00030</u>	12/13/2011
<i>Review of Select Expenditures Claimed by The Research Foundation of the State University of New York, State University of New York at Albany</i>	<u>A-02-11-02000</u>	10/13/2011
<i>Review of Administrative and Clerical Costs at Dartmouth College for Fiscal Years 2009 Through 2010</i>	<u>A-01-11-01500</u>	8/5/2011

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered payroll costs of \$119,926,937 claimed by the University from October 1, 2008, through September 30, 2010 (audit period), for regular and general assistance employees. We limited our review to administrative and clerical payroll costs charged as direct costs to grants, contracts, and other agreements between the University and components of HHS, including NIH and the Public Health Service.⁷ We did not evaluate administrative and clerical payroll costs charged to other Federal Departments and agencies.

To determine the allowability of the administrative and clerical payroll costs charged as direct costs to HHS awards, we reviewed a stratified random sample of 200 monthly payroll payment records, totaling \$503,863. A small number of the sample items were charged to Recovery Act awards.

We limited our assessment of internal controls to the University's policies and procedures for charging administrative and clerical payroll costs to HHS awards. We did not assess the University's Web-based effort reporting system. We conducted our fieldwork at the University's offices in La Jolla, California.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal regulations and the NIH Grants Policy Statement;
- reviewed the findings of prior OIG reviews of administrative and clerical costs claimed by colleges and universities;
- interviewed University officials in Contract and Grant Administration, Post Award Financial Services, Audit and Management Advisory Services (AMAS), and the Financial Analysis Office to obtain an understanding of the identification and oversight of administrative and clerical costs;
- interviewed University department managers and fund managers to obtain an understanding of their oversight and monitoring of administrative and clerical costs;
- reviewed the University's policies and procedures related to the identification of and accounting for administrative and clerical costs;
- reviewed the University's March 9, 2007, Cost Accounting Standards Board Disclosure Statement submitted to the HHS Division of Cost Allocation;

⁷ We will issue a separate report on our review of the University's administrative costs other than payroll costs charged directly to HHS awards.

- reviewed the University's chart of accounts and related descriptions;
- obtained information from AMAS on job title codes identified with payroll costs that are normally considered F&A costs and job title codes identified with payroll costs that are normally considered direct research-project-related costs (i.e., technical services);
- obtained a data extract from the University's Financial Analysis Office containing total expenditures that the University charged to Federal awards for our audit period and reconciled the total expenditures with the University's historical financial reports;
- obtained a data extract from the University's Financial Analysis Office containing total operating ledger expenditures by account category for our audit period for HHS awards and reconciled the total expenditures with HHS award total expenditures included in the Federal award data extract;
- obtained two data files⁸ from the University's Financial Analysis Office containing all transactions for regular staff and general assistance employee payroll costs and the associated fringe benefits that were charged directly to HHS awards for the audit period and reconciled the gross payroll costs with the University's operating ledger;
- combined each employee's payroll and vacation leave accrual transactions by the employee's unique identification number, job title code, unique HHS award fund number, and payroll effective month/year to create a monthly payroll payment record;
- removed all monthly payroll payment records that had an amount that was zero, negative, or \$100 or less to arrive at our sampling frame of 52,894 monthly payroll payment records totaling \$119,926,937;
- used a stratified random sample consisting of four strata;⁹
- selected and determined the allowability of 200 monthly payroll payment records;¹⁰
- considered corresponding negative adjustments for an erroneous monthly payroll payment record if the University provided adequate supporting documentation for the adjustments;

⁸ The data files were the (1) Distribution of Payroll Expense Schedule, which contained the gross payroll and associated fringe benefit transactions for regular and general assistance employees, and (2) Vacation Leave Accrual, which contained the detailed transactions for the payroll costs associated with employees' vacations that had been earned and used.

⁹ We assigned levels of potential risk to three of the four strata (high, medium, and low), representing the degree of risk that the University inappropriately charged administrative and clerical payroll costs as direct costs. The risk level was based on employee job title codes and job title code information provided by the University. The fourth stratum was a certainty stratum and included all monthly payroll payment records that exceeded \$14,000.

¹⁰ We randomly selected 103 records from stratum 1 (high risk), 60 records from stratum 2 (medium risk), and 30 records from stratum 3 (low risk). We selected all 7 records in stratum 4.

- evaluated the 200 sample items on the basis of documentation provided by the University, which included the notice of award, grant application and grant progress report, University employee job-description, employee time records, employee after-the-fact activity reports, employment history and funding sources, and employee leave summary report;
- discussed our preliminary findings with NIH representatives and reviewed information provided by NIH;
- computed the F&A costs related to the unallowable monthly payroll payment records;¹¹ and
- discussed our findings with University officials.

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.

¹¹ Direct payroll costs are used to compute the amount of F&A costs charged to HHS awards. To determine the amount of unallowable F&A costs related to the unallowable direct payroll costs, we applied the applicable F&A rate to the monthly payroll payment record amount determined to be in error.

APPENDIX C: FEDERAL REGULATIONS FOR DETERMINING ALLOWABILITY OF COSTS

Federal regulations state: “Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A costs.” (2 CFR part 220, Appendix A, § D.1.)

Federal regulations state: “Proposal costs are the costs of preparing bids or proposals on potential federally and non-federally-funded sponsored agreements or projects, including the development of data necessary to support the institution’s bids or proposals. Proposal costs of the current accounting period of both successful and unsuccessful bids and proposals normally should be treated as F&A costs” (2 CFR part 220, Appendix A, § J.38.)

Federal regulations state:

The salaries of administrative and clerical staff should normally be treated as F&A costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project. “Major 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. (2 CFR part 220, Appendix A, § F.6.b.(2).)

Exhibit C of 2 CFR part 220 provides examples of major projects, such as (1) grants and contracts that entail assembling and managing teams of investigators from a number of institutions (2) and projects that require extensive data accumulation, analysis, and entry.

Federal regulations provide that the cost of an award comprises the allowable direct costs, plus the allocable portion of the allowable F&A costs, less applicable credits (2 CFR part 220, Appendix A, § C.1). The regulations also state: “... ‘applicable’ credits refers to those receipts or negative expenditures that operate to offset or reduce direct or F&A cost items” (2 CFR part 220, Appendix A, § C.5.a).

Federal regulations state: “[After-the-fact activity reports] will reasonably reflect the activities for which employees are compensated by the institution. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the [reporting] period, the reports will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.” (2 CFR part 220, Appendix A, § J.10.c.(2)(c).)

APPENDIX D: UNIVERSITY COMMENTS

UNIVERSITY OF CALIFORNIA, SAN DIEGO

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May 14, 2014

Lori A. Ahlstrand
Regional Inspector General for Audit Services
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Office of Audit Services, Region IX
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Re: Report number: A-09-12-01001

Dear Ms. Ahlstrand:

University of California, San Diego (UCSD) provides its written response to the Department of Health and Human Services (DHHS) Office of Inspector General (OIG) April 15, 2014 draft report entitled *University of California, San Diego, Generally Claimed Administrative and Clerical Payroll Costs Charged Directly to HHS Awards in Accordance with Federal Regulations*.

Thank you for the opportunity to respond to the findings that were identified in your audit. If you have any questions related to the responses provided, please contact me at 858-534-1334.



David Meier
Director
Audit and Management Advisory Services
University of California, San Diego

University of California, San Diego – Response to Draft Audit Report

University of California, San Diego (University) submits these comments in response to the April 15, 2014 Department of Health and Human Services(DHHS) Office of Inspector General (OIG) draft report entitled *University of California, San Diego, Generally Claimed Administrative and Clerical Payroll Costs Charged Directly to HHS Awards in Accordance with Federal Regulations* (OIG Draft Report).

The OIG made two (2) recommendations in its OIG Draft Report, and commented on one Other Matter. Responses to each are provided below.

1. OIG RECOMMENDATION: UNIVERSITY SHOULD REFUND \$3,765 TO THE FEDERAL GOVERNMENT

The OIG sampled 200 payroll transactions, finding that five (5) transactions in four areas were either unallowable or partially unallowable. We agree with four of the five unallowable items, as noted below.

A. OIG FINDING #1 - COSTS WERE NOT TREATED CONSISTENTLY

RECOMMENDED ACTION:

Refund the Federal Government \$920 of unallowable administrative payroll costs plus associated indirect costs.

University Response:

The University does not concur with the OIG’s disallowance of this transaction. We maintain that the individual was appropriately charged directly on the HHS award due to circumstances that were unlike the activities that are normally included in the University’s facilities and administrative (F&A) cost pools.

The assistant department business officer (ADBO) is responsible for managing the Cancer Center Support Grant (CCSG), which is a major project. Although this individual worked on the business/financial aspects of a number of grant proposals during the reporting period, this time was not charged to the CCSG. The individual’s effort was split-funded between the sampled federal award (at 67 percent) and non-sponsored funding (at 33 percent). Her primary functions relative to the CCSG were to allocate the CCSG award, monitor CCSG expenses, report those expenses to the various program and shared resource directors, and also manage the recharge accounts of the eight shared resources receiving CCSG support. Additionally, the ADBO managed the pilot project program supported within the CCSG Developmental Funds category. She advised leadership on the amount of funds available for awards, advised awarded project directors of the status of their pilot project funds, and reported on the funds in CCSG progress reports. The individual attended program planning and operations meetings for activities partially supported by the CCSG and advised on the status of funds currently awarded and planned for the future. The CCSG Guidelines confirm the allowability of “costs

necessary for central administration of resources and services required for center research activities, fiscal management of the center, and reporting activities¹.” Although the progress report indicated some pre-award activity, OIG cannot conclude based on this information alone that pre-award duties were not allocated to other non-sponsored activity (33%).

While the University does not concur with the finding, we acknowledge that the documentation provided may not have adequately supported this sampled transaction. We have advised the appropriate leadership to ensure that the individual’s activities are more accurately documented in future progress reports to ensure consistency with the job description and the individual’s actual post-award duties.

B. OIG FINDING #2 - AWARD WAS NOT A MAJOR PROJECT

RECOMMENDED ACTION:

Refund the Federal Government \$782 of unallowable administrative payroll costs plus associated indirect costs.

University Response:

The University concurs with the OIG’s disallowance of this transaction and agrees to refund \$782 plus associated indirect costs. The employee separated from the University in 2011, and this role on the award was not continued. Therefore, there was no continued charge to the award for this administrative support.

C. OIG FINDING #3 & #4 - APPLICABLE CREDITS WERE NOT USED TO OFFSET ALLOWABLE COSTS

RECOMMENDED ACTION:

Refund the Federal Government \$441 of unallowable clerical payroll costs charged to two HHS awards for two employees.

University Response:

The University concurs that applicable credits for vacation taken were not initially applied correctly to two HHS awards. Upon discovery, we instructed the cognizant University departments to correct the vacation credits. Please find the corrected journal vouchers in Attachment A. The corrections were distributed to the applicable HHS awards while the awards were open. Therefore, a separate refund for the \$441 plus associated indirect costs is unnecessary.

¹ Cancer Center Support Grant Guidelines Oct 26, 2010,
http://web.archive.org/web/20101206145651/http://cancercenters.cancer.gov/documents/CCSG_Guidelines.pdf

D. OIG FINDING #5 - AFTER-THE-FACT ACTIVITY REPORT WAS NOT CERTIFIED

RECOMMENDED ACTION:

Refund the Federal Government \$367 of unallowable clerical service costs plus associated indirect costs.

University Response:

The University concurs that the employee, Principal Investigator (PI), or responsible official did not certify the employee's after-the-fact activity report. In this case, the oversight was attributable to transition issues after the original PI departed the University. The University will continue to provide training for departments to ensure that such transitions are administered so that a responsible official individual certifies sponsored project effort. The University agrees to refund \$367 plus associated indirect costs.

Based on the above, the University agrees to refund \$1,766 (\$1,149 in direct costs, \$617 in indirect costs) to the federal government for findings 2 and 5 above. Please advise how UCSD should process this reimbursement.

2. OIG RECOMMENDATION: UNIVERSITY SHOULD ENHANCE OVERSIGHT OF ADMINISTRATIVE AND CLERICAL PAYROLL COSTS CHARGED DIRECTLY TO HHS AWARDS TO ENSURE COMPLIANCE WITH FEDERAL REGULATIONS

The University has communicated the findings of this review to the appropriate University officials and will continue to provide education and guidance regarding appropriate charging of administrative and clerical costs. Because of the small number and dollar value of errors noted, we do not believe a change in University business practices for charging or supporting effort on sponsored awards is warranted.

3. OTHER MATTER – A UNIVERSITY DEPARTMENT DID NOT FOLLOW FEDERAL GUIDELINES AND UNIVERISTY POLICY FOR REPORTING IMPROPER GOVERNMENTAL ACTIVITY

The University acknowledges that the University department did not raise the improper governmental activity to the Local Designated Official (LDO) for an appropriate University investigation in accordance with University policy. University leadership has been made aware of this issue, and additional education is planned for departments to prevent future reoccurrences. The employee's payroll costs were transferred to an unrestricted non-federal University funding source in total to ensure the sponsored award was not financially impacted.

Further, the Department has begun implementation of the MyTime application for electronic processing and approval of timesheets, which will eliminate paper timesheets and the

possibly of a future reoccurrence of this issue. Currently, all non-exempt staff and a portion of student employees in the Department have switched to MyTime. The transition of student employees to MyTime is being implemented by all department laboratories, and the laboratory in which this incident occurred in has been migrated to MyTime. The Department plans to complete the migration for remaining staff, academics, and students by August 1, 2014. The manual processing of timesheets, which allowed the student to alter his timesheet after supervisor approval, will then be completely discontinued.