

**Memorandum****JAN 28 1992**

Date

From

R. Kusserow
Richard P. Kusserow
Inspector General

Subject

Summary of Calendar Year 1991 Audit Activity at Colleges and Universities

To

James O. Mason, M.D., Dr. P.H.
Assistant Secretary for HealthKevin E. Moley
Assistant Secretary for
Management and Budget

In light of the high level of congressional, administration, agency and public interest in the college and university area, we prepared a report that recapitulates the full range of our audit work performed over the last year. Attached for your information and use is a copy of this report which will also be provided to the Chairman of the House Subcommittee on Oversight and Investigations at tomorrow's hearing on the subject.

If you have any questions or need further information pertaining to this material, please call me or have your staff contact Daniel Blades, Assistant Inspector General, Public Health Service Audits, at 443-3585.

Attachment

cc:

Dr. Bernadine P. Healy, M.D.
Director, National Institutes of Health

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**SUMMARY OF CALENDAR YEAR 1991
AUDIT ACTIVITY AT COLLEGES AND
UNIVERSITIES**



Richard P. Kusserow
INSPECTOR GENERAL

A-01-92-04005



JAN 28 1992

The Honorable John D. Dingell
Chairman, Subcommittee on
Oversight and Investigations
Committee on Energy and Commerce
House of Representatives
Washington, D.C. 20515

Dear Mr. Dingell:

In light of the high level of congressional, administration, agency, and public interest in the college and university area, the Office of Inspector General (OIG) of the Department of Health and Human Services (HHS) prepared a report that recapitulates the full range of work performed over the last year. Enclosed for your information and use is a copy of a management advisory report summarizing our audit activity in the college and university area for Calendar Year (CY) 1991.

The OIG performed or reviewed 898 audits in the college and university area during CY 1991. The primary focus of our audit work was our continuing effort to ensure that the Federal Government pays only its fair share of total research costs, both direct and indirect costs. Through these audits and special initiatives, we:

- o Disclosed a total of \$38.4 million in unallowable costs in the indirect cost pools of universities under HHS cognizance and provided valuable audit assistance to the Department's Division of Cost Allocation (DCA) resulting in millions of dollars of reductions for future reimbursement of indirect costs due to negotiations of reduced indirect cost rates (\$9.8 million at three schools where negotiations were recently completed).
- o Determined that it is a common practice for universities to enter into sponsored agreements with private industry and foreign governments at reduced indirect cost rates. The 10 universities in our review were forgoing about \$46 million in revenues per year because of reduced indirect cost rates.
- o Estimate that universities receiving grants from the National Institutes of Health during CY 1990 carry-over into future award periods approximately \$160 million.
- o Determined that some university recharge center operations, such as telecommunication and computer services billed to internal users, resulted in surplus

funds to subsidize other institutional activities, deficits allocated to indirect costs and absorbed in part by Federal research and the reimbursement of unallowable costs. We are in process of recommending reimbursement (approximately \$1.8 million to date) to the Federal Government for overcharges to Federal research.

- o Reviewed a major northeastern university's property management system and found that the granting agency did not incorporate a clause in the grant award to prohibit the purchase of equipment which the granting agency's peer review recommended not be purchased.
- o Disclosed that some universities charge as much as \$2 million of their medical liability insurance costs to sponsored research while others charged only a small amount. We believe that it is inappropriate for medical liability insurance costs to be allocable to organized research which does not involve human subjects.

In addition to the above, the OIG has numerous other audits and surveys underway with reports in process recommending potential changes in regulations or targeting areas of potential risk. Further, we developed an audit survey instrument, are in the process of developing a national data base to aid in targeting at risk areas for future audit effort, issued numerous audit guides to provide effective and efficient audit coverage, developed a long-range strategy for the college and university area and provided valuable input to the HHS task force studying alternatives to the current cost reimbursement system.

We believe that our current audit work, the establishment of a college and university data base, our long-range planning and our flexibility to move with emerging issues will enable the OIG to address significant concerns in the area of federally sponsored research during the 1990s.

If you have any questions, please call me or have your staff contact Stephen H. Davis, Congressional Liaison Officer at 619-3270.

Sincerely yours,



Richard P. Kusserow
Inspector General

Enclosure

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EXECUTIVE SUMMARY

This report summarizes Calendar Year (CY) 1991 College and University audit work performed by the Office of Inspector General (OIG) of the Department of Health and Human Services (HHS).

During CY 1991 the Federal Government allocated about \$10 billion to research at universities. The HHS contributed \$5.3 billion, primarily to advance biomedical research. The HHS portion of the overall funding amounts to about 53 percent of the total for the Federal Government. Although this represents only a shade more than 1 percent of the total HHS outlays, the OIG has devoted more than 5 percent of its audit resources to oversight of these grantees. In large measure, this decision is the result of the special responsibilities assigned to HHS as the Federal cognizant agency at the great majority of universities supporting Federal research.

Pursuant to the Office of Management and Budget (OMB) Circular A-88, Indirect Cost Rates, Audit, and Audit Follow-up at Educational Institutions, the vast majority of colleges and universities receiving Federal funding have been assigned to HHS for cognizance. This has meant that HHS has been charged among other things with establishing the indirect cost rates and the OIG with auditing those rates to insure compliance with OMB Circular A-21, Cost Principles for Educational Institutions.

One of the most active HHS-OIG audit issues of CY 1991 was indirect costs at colleges and universities. The HHS-OIG testified at five Congressional Hearings on the subject during the last session of Congress. The OIG testified on a wide range of audit activity performed during the past year. During the same period OMB made revisions of their Circular A-21.

Many departments and agencies are affected by the issues raised in the recent hearings, inasmuch as, the grants affected by the indirect cost issues come from a variety of sources within the Federal establishment. In view of this high level of congressional, administration, agency, and public interest the OIG prepared a report that recapitulates the full range of work performed over the last year. The OIG performed or reviewed 898 audits during CY 1991. The OIG's initiatives:

- o Disclosed a total of \$38.4 million in unallowable costs in the indirect cost pools of universities under HHS cognizance. Indepth reviews at 14 universities disclosed \$20.4 million of unallowable general and administrative costs that were included in order to maximize approved indirect cost rates. Working with all 262 universities under HHS cognizance in reviewing indirect cost pools, another \$18 million of unallowable costs was disclosed.

- o Provided valuable audit assistance to the Department's Division of Cost Allocation (DCA) resulting in millions of dollars of reductions for future reimbursement of indirect costs due to negotiations of reduced indirect cost rates (\$9.8 million at three schools where negotiations were recently completed).
- o Determined that it is a common practice for universities to enter into sponsored agreements with private industry and foreign governments at reduced indirect cost rates. While the Federal Government, in some cases, also receives reduced indirect cost rates it is not proportional to nonfederal sponsors. The 10 universities in our review were forgoing about \$46 million in revenues per year because of reduced indirect cost rates. However, the Federal Government did not subsidize the research of foreign government and industry sponsors at these universities.
- o Estimate that universities would have unspent balances on National Institutes of Health (NIH) grants totaling over \$160 million at year end (CY 1990) representing a carry-over into the next award period.
- o Determined that some university recharge center operations, such as telecommunications and computer centers billed to internal users, resulted in surplus funds to subsidize other institutional activities, deficits allocated to indirect costs and absorbed in part by Federal research and the reimbursement of unallowable costs. We are in process of recommending reimbursement (approximately \$1.8 million to date) to the Federal Government for overcharges to Federal research.
- o In a review of a major northeastern university's property management system found that the granting agency did not incorporate a specific clause in the grant award to prohibit the purchase of general purpose equipment which the granting agency's peer review recommended not be purchased.
- o Determined that universities use a variety of methods to include medical liability insurance costs in their indirect cost rates. Some universities charged as much as \$2 million of their medical liability insurance costs to sponsored research while others charged only a small amount. We believe that its inappropriate for medical liability insurance costs to be allocable to organized research which does not involve human subjects.

In addition to the above, the OIG has underway numerous other audits and surveys with reports in process recommending potential changes in regulations or targeting areas of potential risk. Further, the OIG developed an audit survey instrument, is developing a national data base to aid in targeting at risk areas for future audit effort, issued numerous audit guides to provide effective and efficient audit coverage, developed a long-range strategy for the college and university area and provided valuable input to the HHS task force studying alternatives to the current cost reimbursement system.

These efforts demonstrate the OIG's continued resolve to stay abreast of emerging issues and our commitment to ensuring that scarce research funds are efficiently utilized and maximum public benefits derived.

INTRODUCTION

BACKGROUND

Over 40 years ago, the Federal Government entered into a partnership with the nation's colleges and universities for the funding of basic and applied research and the education of future researchers. Federal commitments to research performed at colleges and universities have increased from \$4.2 billion in 1980 to about \$10 billion in 1991, an increase of 138 percent. A majority of research is funded by the Department of Health and Human Services (HHS), which provides approximately 53 percent of all research funding.

The Federal Government is committed to paying its fair share of total research costs. To understand the college and university environment it is necessary to grasp three aspects of Federal guidance. These are cognizance (assignment of oversight responsibility to Federal agencies), cost principles, and audit requirements. We have addressed each below.

HHS OIG as Cognizant Auditor

Currently, there are some 2800 colleges and universities that receive Federal funding of one sort or another. Of that number, only about 700 schools receive federally funded research grants and in turn only about one half that number have significant levels of funding. The major recipients of Federal funding are generally divided up for Federal oversight generally determined by whoever has the largest amount of funding at risk. Circular A-88, Indirect Cost Rates, Audit, and Audit Follow-up at Educational Institutions, identifies the cognizant Departments.

Some 262 major universities, the great majority, receive more Federal research dollars from HHS. The cognizant or responsible agency for negotiating indirect cost rates therefore is the Division of Cost Allocation (DCA) in the office of the Assistant Secretary of Management and Budget (ASMB) for HHS. The cognizant or responsible auditor for all Federal funding at those schools is the Office of Inspector General (OIG) for HHS. The second largest cognizant agency with most of the balance of major schools is the Department of Defense with some 38 schools. The Department of Interior has two schools, Department of Energy has two schools and the Department of Commerce has one school.

During the last year the HHS-OIG had activity at all 262 schools under their audit cognizance. In depth audits took place at 14 universities, including Dartmouth College, Duke University, Emory University, Johns Hopkins University, Rutgers University, University of Chicago, University of Miami, University of Michigan, University of Pennsylvania, University of Pittsburgh, University of Southern California, the Texas Southwest Medical

Center, Washington University and Yale University. The total amount of unallowable costs identified at those universities was \$20.4 million.

Another phase of the audit effort was to review the current indirect cost plans of colleges and universities to ensure proper adherence to OMB Circular A-21, Cost Principles for Educational Institutions. We requested that the universities begin that process themselves with their own in house and contracted audit and accounting staff, which in turn would be reviewed and/or audited by OIG staff. To date, 104 schools at our request completed in-house reviews. The unallowable costs identified and reported from this exercise to date totals \$18 million. Final review of the in-house reviews at these schools has not been completed, however, the most significant findings in terms of dollar exposure that would lead to adjustments should have been clearly identified to date.

The OIG is in contact with an additional 72 schools which pursuant to our request are in process of conducting internal reviews of their indirect cost plans. When they have completed their reviews, OIG auditors will review and follow-up. There is an additional 31 schools in which the OIG has made contact for further review but wherein matters are still in the preliminary stages of development. The remaining 10 schools in the HHS audit universe have thus far avoided OIG efforts for review.

Cost Principles

The OMB Circular A-21, provides the principles for determining the costs applicable to research and other work performed under federally sponsored agreements. The total cost of federally sponsored research consists of allowable direct and the allocable portion of the allowable indirect costs.

Direct costs are those that can be identified 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. Identification with the sponsored work rather than the nature of the goods or services involved is the determining factor in distinguishing direct from indirect costs. Direct costs include such items as the salaries of the project investigators, travel costs incurred in connection with the project, laboratory supplies, project-specific research equipment and subcontracts.

Indirect costs are costs incurred for common or joint objectives which cannot be readily identified with specific research projects, instructional programs or other university activities. Indirect costs are, therefore, grouped in a series of indirect cost pools and allocated between research and other activities

based on cost allocation procedures. Examples of indirect costs are utility expenses, depreciation of buildings and general university administration costs.

The successful implementation of the cost principles in OMB Circular A-21 requires a mutual understanding between colleges and universities and the Federal Government as to their interpretation. Disclosures in early 1991 showed that universities made interpretations which expanded the types and amounts of costs which they claimed for reimbursement for Government funded research. Accordingly, OMB revised Circular A-21, effective October 1, 1991, to clarify policy and further define accounting standards.

Audit Requirements

Under Federal guidelines, nonfederal auditors review financial and compliance issues at colleges and universities. Under cognizant responsibilities, Federal auditors review the work of nonfederal auditors to assure that it has been performed and reported in accordance with Government auditing standards and OMB requirements and to identify issues warranting follow-up. In addition, this review function serves to assess the impact of the disclosures and findings on Federal funds and to facilitate an overall audit approach and target additional work or action required to protect the Federal interest.

Until 1990, OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other NonProfit Organizations, Attachment F (Standards for Financial Management Systems), contained provisions for organizationwide audits at colleges and universities. However, the Circular was proven to be inadequate because audit requirements lacked sufficient detail and did not require that such audits be done in accordance with generally accepted Government auditing standards. Further, the Circular did not require universities to submit results of their audits to the Federal Government for review.

In response to these inadequacies, OMB issued Circular A-133, Audits of Institutions of Higher Education and Other NonProfit Institutions. Our office worked closely with OMB to develop Circular A-133. The OMB Circular A-133 requires educational institutions to have organizationwide audits at least every two years and is applicable to audits for fiscal years that commenced on or after January 1, 1990. State universities, at the election of the State, may be included under the State's statewide audit in accordance with OMB Circular A-128, Audits of States and Local Governments. Both OMB Circulars A-128 and A-133 require colleges and universities to arrange for the performance of

organizationwide audits to insure compliance with Federal cost principles contained in OMB Circular A-21 and other pertinent provisions.

In October 1991, OMB issued a compliance supplement to OMB Circular A-133 to assist auditors in the conduct of their audits. This supplement sets forth compliance requirements and suggested audit procedures relative to direct and indirect costs, administrative requirements and research and development programs. The full implementation of OMB Circular A-133 will substantially increase and improve audit coverage at colleges and universities.

METHODOLOGY

In accordance with OMB Circulars A-128 and A-133, the objective of the OIG's audit efforts in the college and university area were and will continue to be built upon and to supplement the audits performed by nonfederal auditors.

The OIG typically formulates and updates annually a 2-year audit work plan. Early in 1991, we supplemented our normal 2-year audit work plan for colleges and universities with the development and issuance of a long-range strategy for the college and university area. The purpose of this management advisory report is to summarize our efforts and apprise you of the status of our audit work in the college and university area.

To accomplish our objective, we obtained data from the OIG's audit information system and contacted auditors currently working on audits initiated in CY 1991. Through this process, we identified reports of audits conducted at colleges and universities and on-going audit efforts which commenced during CY 1991. During this period, the OIG issued 826 audit reports. Of this number, 211 were performed by the OIG and the remaining 615 by nonfederal auditors.

STATUS OF CALENDAR YEAR 1991 ACTIVITY

Through our audits, we found and reported many serious problems (over 967 findings). Despite limited resources, the OIG issued 826 reports (211 OIG and 615 nonfederal) during CY 1991. Further, the OIG and nonfederal auditors started an additional 72 audits (52 OIG and 20 nonfederal) during CY 1991 which should result in reports during CY 1992. The total OIG audits started include 104 pre-award contract audits, 83 audits of costs incurred on grants and contracts and 76 special initiatives. The 635 nonfederal audits were performed under Federal audit policy contained in OMB Circulars A-110, A-128 or A-133.

The primary focus of our CY 1991 audit work in the college and university area was our continuing effort to ensure that the Federal Government pays only its fair share of total research costs, both direct and indirect costs. Through these audits and special initiatives, we have disclosed millions of dollars of unallowable costs included in indirect cost proposals, been a motivating force for numerous universities to conduct in-house reviews, developed an audit survey instrument to aid in targeting at risk areas, provided valuable audit assistance to DCA for the negotiation process and conducted numerous audits and surveys with final reports or reports in process with recommendations for potential changes in regulations or targeting areas of potential risk. In addition, we issued numerous audit guides to provide effective and efficient audit coverage, developed a long-range strategy for the college and university area and provided valuable input to the HHS task force studying alternatives to the current cost reimbursement system.

Below we briefly summarize the major OIG special initiatives undertaken in the college and university area during CY 1991.

National Audit of General & Administrative Indirect Costs at Selected Colleges and Universities

This audit addresses the allowability of certain general and administrative (G&A) costs under OMB Circular A-21 and the necessity for further revisions to OMB Circular A-21. The results of our audits at 14 universities show that where there were questions related to the allocability of certain costs, when determining their allowability, the former version of OMB Circular A-21 did not always provide clear guidance. Over time, universities made liberal interpretations which expanded the types and amounts of costs included in the G&A. We found that the 14 universities included about \$20.4 million (\$3 million allocated to organized research) of unallowable costs in their indirect cost proposals as submitted to the DCA.

Examples of unallowable G&A costs disclosed in our audits include expenses for airfare for presidents' wives, airfare to a resort

island to attend a meeting of investors, numerous charges to attend football games, opera tickets, liquor charges, legal fees for defense of an investigation brought by the Federal Government against the university concerning tuition price-fixing, legal fees relating to violation of student civil rights, a storyteller at a Christmas party and memberships in university athletic associations and various social clubs including a yacht club.

Subsequent to congressional hearings on the preliminary results of our audits, OMB revised Circular A-21 to preclude charges for many of the unallowable costs disclosed in our audits. The OMB also placed a 26 percent cap on the administrative costs which universities could charge to sponsored agreements. In addition, OMB established methods for adjusting previously negotiated indirect cost rates containing unallowable costs. These revisions became effective on October 1, 1991.

The results of our audits demonstrate that OMB Circular A-21 needs further improvements and continued modernization to strengthen the mutual understanding between universities and the Federal Government. Whether a cost is allocable should be determined clearly by Federal policies and not by features of each university's accounting system or the impressions of accountants and university officials. Accordingly, we have recommended that ASMB work with OMB to further revise its Circular A-21 to (1) clarify the definitions of allowable and allocable costs, (2) clarify certain costs already considered unallowable, and (3) add additional categories of unallowable costs. We also recommended that ASMB (1) continue to provide the universities assistance whenever possible regarding the clarification and implementation of OMB Circular A-21, (2) appropriately implement the 26 percent cap on administrative costs, and (3) where appropriate, adjust the previously negotiated indirect cost rates for the universities audited and calculate refunds.

OIG/ASMB Joint Effort Requesting Universities to Perform Internal Reviews

This effort was undertaken to ensure that colleges and universities adhered to OMB Circular A-21 cost principles. The OIG and the ASMB requested that major colleges and universities begin a process with their own in-house and contracted audit and accounting staff to conduct reviews of their internal procedures to ensure that only allowable costs are included in the indirect costs allocated to Federal research. (See EXHIBIT I for a summary status of requests.)

To date, 126 universities have, at our request, completed in-house reviews. The unallowable costs identified and reported from this exercise to date totals approximately \$18 million. (See EXHIBIT II for a summary of universities which completed

internal reviews.) Of this figure, \$11.4 million was reported by 4 of the 126 universities prior to OIG audits. The remaining \$6.6 million was reported by 25 of the 126 universities. The withdrawal of the \$18 million from allocations to organized research reduce indirect cost rates at various universities from one-tenth of a percent to 4 percent. Based on our experience at 14 universities approximately 15 percent of the total unallowable cost is allocated to organized research.

The OIG is in contact with an additional 72 universities which pursuant to our request are currently in the process of conducting internal reviews of their indirect costs. There are 31 additional universities wherein matters are still in the preliminary stages of development. Further, 23 universities are not currently performing internal reviews for such reasons as they: 1) have recently completed audits, 2) plan reviews as part of their next indirect cost proposal project, 3) utilize the short form to compute indirect costs, or 4) believe they have not included inappropriate costs. (See EXHIBIT III for summary of universities not performing internal reviews at this time.)

We regret to report that 10 of the 262 universities in the HHS audit universe of universities requested to perform internal reviews have thus far avoided OIG requests for review. We are continuing our efforts with these universities to obtain their cooperation in conducting internal reviews. (See EXHIBIT IV for a summary of universities which have not responded to OIG efforts for internal reviews.)

The OIG and DCA staff are in process of reviewing and determining the acceptability of the universities in-house reviews. For example, one major west coast university with its CPA firm made a presentation to OIG/DCA staff to explain the process of "screening" and "scrubbing". Screening refers to the conversion of account classifications from financial statement presentation to a cost pool (either direct or indirect) in accordance with OMB Circular A-21. Scrubbing indicates a review of individual transactions to determine allowability and allocability. This presentation showed that the university's review procedures were well documented with a good audit trail.

We believe that OIG and DCA staff working together in this endeavor will maximize the use of scarce resources to provide a basis to assure that the most significant findings in terms of dollar exposure that would lead to adjustments have been clearly identified.

National College and University Audit Survey Instrument

In August 1991, we developed a document entitled HEALTH AND HUMAN SERVICES, OFFICE OF INSPECTOR GENERAL, COLLEGE AND UNIVERSITY AUDIT SURVEY INSTRUMENT to aid in targeting future audit efforts

and assist in establishing a data base for universities' indirect cost practices. This audit survey instrument is a comprehensive document which requests universities to provide us with detailed information on how they account for buildings, equipment, operations and maintenance, and libraries, and charge such through the respective cost pools which comprise their indirect cost plans. We began issuing this comprehensive audit survey instrument in August 1991 to selected universities which had not responded at that time to our request for an internal review.

We have sent the audit survey instrument to 23 universities. To date, we have received nine completed responses which we are currently analyzing. Other universities are in the process of completing or will complete the survey instrument. (See Exhibit V for listing of universities receiving audit survey instrument.)

Through the preparation of this carefully planned and clearly focused survey instrument, we, as the cognizant Federal audit agency, intend to efficiently provide the basis for future audits in potentially problematic areas. This up-front planning facilitates the effective and efficient use of resources to high-risk areas within the college and university arena.

Audit Assistance Provided to DCA

Each year the DCA requests that we provide audit assistance on specific indirect cost issues at selected universities. The OIG has been increasing its efforts in this area and the auditors and negotiators are continuing an excellent working relationship. During CY 1991, the OIG in addition to the audits of G&A at the 14 universities started reviews at 6 universities as a result of DCA requests. These reviews provide timely information to DCA negotiators who in turn aggressively negotiate the indirect cost rates proposed by the universities. For those reviews where the DCA is currently in the process of negotiating indirect cost rates, we cannot release the results of our work at this time because they are part of the negotiation process. However, we are providing examples where DCA negotiations have been completed.

- Our collaborative efforts at a southeastern university identified deficiencies showing that the university overstated its proposed indirect cost rate for Fiscal Years (FY) 1991 through 1994. The DCA estimates that OIG efforts resulted in savings of about \$5.2 million. We found: (1) the university incorrectly computed the percentage of space assigned to organized research for a new research building, (2) the university's space study was not sufficient to support space distribution costs, (3) a lack of documentation to support certain operations and maintenance costs and also to support building use allowance, (5) an invalid library cost study, (6) the

utilization of an inappropriate methodology in effecting a change from use allowance to depreciation for equipment, and (7) several questionable costs for non-labor charges to departmental administration, including expenditures that were improperly allocated to the dean's office. The university proposed a 77.4 percent indirect cost rate for FY 1991. The DCA negotiated predetermined indirect cost rates of 52 percent for FYs 1991 and 1992 and 57 percent for FYs 1993 and 1994.

- Our collaborative efforts at one west coast university disclosed deficiencies resulting in savings of about \$7.8 million for FYs 1992 through 1994. The DCA estimates that OIG efforts resulted in \$4 million of the \$7.8 million. We found: (1) major remodeling costs were expensed rather than capitalized and depreciated, (2) inappropriate building and equipment use allowance allocations, (3) the space assigned to organized research was overstated, and (4) expenses in the G&A cost pool requiring adjustment. The university proposed a 43.89 percent indirect cost rate. The DCA negotiated predetermined indirect cost rates of 39 percent for FY 1992, 39.5 percent for FY 1993, and 40 percent for FY 1994.
- Our collaborative efforts at another west coast university identified deficiencies resulting in savings of about \$948,000 for FY 1992. The DCA estimates that OIG efforts resulted in \$558,000 of the \$948,000. In general, we found: (1) major remodeling costs were expensed rather than capitalized and depreciated, (2) expenses in the G&A cost pool requiring adjustment, and (3) expenses in the library cost pool which did not benefit organized research. The university proposed an 53.6 percent indirect cost rate. The DCA negotiated a predetermined indirect cost rate of 48 percent for FY 1992.

During FY 1991 the average indirect cost rate proposed by major HHS cognizant universities was 58.7 percent. The average rate negotiated by DCA was 50.9 percent, a 7.8 percent reduction. The university negotiations completed in FY 1991 resulted in \$300 million more available for additional Federal research.

Nationwide Data Base for Colleges and Universities

The OIG is in process of establishing a nationwide data base of cost information for HHS cognizant colleges and universities. In constructing the data base, we are utilizing data from the National Institutes of Health (NIH), the National Science Foundation and the DCA. Based on this data, along with information we obtained directly from the institutions, we are compiling a 5-year data base consisting of the top 100 to 110 universities under HHS cognizance which receive about 90 percent

of the Federal research dollars. Once we establish the data base, we plan to expand, update and maintain, and initiate analyses and audits. Applications which may develop include (1) evaluations to determine the potential causes for increases in costs, (2) ascertaining the effect cost caps may have in indirect cost areas, (3) establishing trends for institutions and cost categories, and (4) identifying aberrant universities with regard to amounts or percentages of funds awarded in a cost category. We also believe that the data base will be valuable as a random sampling universe for detailed audits of both direct and indirect costs. By identifying universities with a propensity for a particular condition, data base applications should allow us to focus our audit efforts on productive areas and make efficient use of our limited resources.

We believe the data base can be the foundation for much of the OIG's efforts in the college and university area. By consolidating available information in a readily accessible data base, we will have a comprehensive, systematic and effective basis for auditing costs of university research. We anticipate the completion of this significant project during CY 1992.

Lowest Charge Indirect Cost Rates

The objectives of this audit were to determine whether colleges and universities enter into research agreements with foreign governments and nonfederal institutions with overhead rates below the rates negotiated with the Federal Government and whether the Federal Government subsidizes indirect costs for nonfederal research projects. We reviewed the billing practices related to overhead for Federal research and that of nonfederal sponsors for 10 large research universities throughout the United States for which HHS has audit cognizance.

The review was performed, in part, based on a request made during hearings before the House Subcommittee on Oversight and Investigations, Committee on Energy and Commerce. The subcommittee expressed concern as to whether the Federal Government was subsidizing the indirect costs for nonfederal research projects with reduced indirect cost rates.

We found that all 10 universities in our review entered into sponsored agreements with reduced indirect cost rates. The Federal Government, in some cases, also received reduced indirect cost rates although not proportional to nonfederal sponsors. The Federal Government was generally not receiving the lowest rate charged for indirect costs, although it was the largest volume purchaser of research. However, we found that the Federal Government is not subsidizing the research of foreign government and industry sponsors at these universities. In this regard,

when calculating indirect cost rates all 10 universities included in the organized research base the direct costs associated with the sponsored projects receiving reduced rates.

The 10 universities were forgoing about \$46 million in revenues per year because of reduced indirect cost rates. In some cases, universities were accepting the lowest indirect cost rates buyers were willing to pay. Three of the ten universities entered into agreements with foreign governments and most entered into agreements with foreign corporations.

The OMB revised Circular A-21, effective October 1, 1991, to add specificity to the requirement to use all elements of an allocation base to compute an indirect cost rate to ensure that Federal sponsors do not in any way subsidize the indirect costs of other sponsors. However, under OMB Circular A-21, universities can fund research costs from private gift accounts which are classified as instruction, not organized research. We plan to perform a review of this practice to determine the effect on Federal reimbursement and, if appropriate, to recommend ways to further strengthen OMB Circular A-21. We will be issuing a report on these matters to department management.

Analysis of Direct Research Costs

The purpose of this review was to assess the utilization of NIH research funds. We reviewed 100 randomly selected grants and contracts awarded by the NIH and closed during CY 1990. We found 54 grants and contracts with balances remaining of \$1.4 million at the end of the award period. Based on our universe of 11,453 grants and contracts administered by 44 universities, we estimate that 6,185 awards would have unspent balances totaling over \$160 million at year-end representing a carry-over into the next award period. This carry forward of unexpended awards to subsequent budget periods appears to be a common practice.

We also found that NIH approved budgets did not reflect how NIH funds were actually spent. We found that certain budgeted cost categories were routinely underspent while other cost categories were routinely overspent. For instance, personnel costs were underspent by \$1.1 million on 63 awards, supply costs were overspent by \$600,000 on 60 awards, and equipment costs were overspent by \$200,000 on 38 awards. Universities are not required to submit expenditure reports broken down by cost categories and are allowed to spend funds in many cases without regard to approved budgets.

Based on this review, we have reservations concerning awarding agencies' ability to adequately monitor the use of their research funds. We will issue a report in FY 1992 recommending that NIH strengthen their oversight of research funds by requiring universities to submit line item expenditure reports.

Audit of Recharge Centers

The objectives of this audit were to determine whether (1) adequate policies and procedures exist for the operation of university recharge centers, (2) universities adjust their billing rates for recharge centers on an annual basis to eliminate accumulated surpluses and deficits, (3) only allowable costs are included in calculating the billing rates, and (4) all recharge center users are charged equitably.

Recharge centers operate as in-house enterprises used to finance, account for, and report upon the provision of commonly needed goods and services to other operating units. These centers typically include motor pools, telecommunications, computing services and supply stores. The OMB Circular A-21 allows costs of recharge center services provided the costs charged are based on the actual use of the services and there is a schedule of rates which does not discriminate between the users of the services.

To date, the results of our review at 11 major universities indicate that certain universities' recharge center operations were not in compliance with Federal requirements. We found that universities did not review and adjust recharge center billing rates on a consistent basis to eliminate accumulated fund balances. Furthermore, some universities were using recharge center surplus funds to subsidize other institutional activities while other universities treated recharge center deficits as indirect costs to be absorbed in part by Federal research. Our review also disclosed that several universities included unallowable costs, such as the actual expenditures for capital equipment, in the calculation of recharge center billing rates.

We are in the process of issuing draft reports to the universities detailing procedural deficiencies as well as recommending reimbursement (approximately \$1.8 million to date) to the Federal Government for overcharges to Federal research. We plan to issue a national report recommending reform of Federal cost principles and guidelines involving recharge centers.

Survey of Utilization of Research Equipment

During a survey of equipment utilization at a major northeast university we found that the granting agency did not incorporate a specific clause in the grant award to prohibit the purchase of general purpose equipment which the granting agency's peer review recommended not be purchased. Without a specific prohibition, the university purchased the general purpose equipment. To keep abreast of emerging issues such as this one, we are including in our 1992 work plan a review to determine the extent to which granting agency peer review recommendations on proposed equipment costs are effective. We believe this review could identify

significant additional funds which could be available for direct research if granting agencies were to explicitly prohibit the purchase of specific equipment based on peer review recommendations.

Audit of Medical Liability Insurance Costs

The objectives of this nationwide audit were to determine the extent universities were charging medical liability insurance to Federal research programs, either directly or indirectly, for research not involving human subjects and the need for revisions to OMB Circular A-21. Currently, OMB Circular A-21 does not provide specific guidance on the charging of medical liability insurance cost. To accomplish our objectives we selected a judgmental sample of 28 colleges and universities with medical schools.

We found that 13 of the 28 universities used a variety of methods to include medical liability insurance costs in their indirect cost rates. Some of these 13 universities charged as much as \$2 million of their medical liability insurance costs to sponsored research while others charged only a small amount. Thirteen universities did not charge medical liability insurance to federally sponsored research, either directly or indirectly. Two universities correctly charged medical liability insurance as a direct cost to awards that involved human subjects.

We believe that the inconsistency in charging medical liability insurance costs has led to an inequity in the university research community. It is not equitable for one university to absorb medical liability insurance cost while another university recovers this cost from Federal research funds. We believe this occurred because OMB Circular A-21 does not provide specific guidance on charging medical liability insurance. We believe that the criteria did not intend for medical liability insurance costs to be allocable to organized research which does not involve human subjects. This type of research does not involve a risk of malpractice claims and thus would receive no relative benefit from the medical liability insurance coverage.

We are in process of preparing a draft report to recommend that the ASMB request OMB to revise Circular A-21 in order to make medical liability insurance premiums an unallowable cost unless they directly relate to Federal research involving human subjects and are fully documented as such. We also recommend that the ASMB ensure that DCA removes this cost when negotiating indirect cost rates for the universities at which HHS has audit cognizance and ensure that medical liability insurance cost is treated consistently at all universities.

Survey of Research Facility Financing

The objectives of this survey were to determine if new construction or renovation of existing facilities is reasonable and necessary in support of Federal research and the impact on indirect cost rates of interest costs, use allowances and other capital costs related to facility replacement.

Infrastructure related costs are one of the fastest growing components of indirect costs as billions of dollars will be expended for construction of new buildings and/or renovation of existing facilities over the next several years. The liberal reimbursement of these costs through the indirect cost rate has encouraged universities to undertake major construction projects to increase and upgrade their research facilities knowing that the Federal Government will share in the costs.

We reviewed the financing for new buildings constructed within the past 2 years or buildings scheduled for completion within the next 2 years at two large research universities in the east. For one of the universities, we determined that the average return on investment for the endowment funds was higher than the bond interest rate charged for construction. Therefore, there would be no cost savings for the Federal Government if the interest expense claimed for financing the construction was limited to the rate of return on the university's endowment fund. For the other university, we found the converse. If there were a regulation capping the interest charged for financing construction to the return on investment of the endowment fund, there could be cost savings of approximately \$200,000 per year.

Our efforts at these two universities shows that a review of the interest expense charged to the indirect cost pools is warranted particularly in the public and quasi-public universities. We anticipate the initiation of the interest expense review at several colleges and universities during FY 1992.

Audit of Travel Costs at Colleges and Universities

Nationwide, travel costs represent about \$300 million or 7 percent of the direct costs charged to grants and contracts. Our efforts at the 14 universities disclosed abuses of travel costs included in the indirect cost pools. Travel costs are allowable subject to OMB Circular A-21 provisions if the costs are directly attributable to specific work under a sponsored agreement or are incurred in the normal course of the administration of the university. The OIG conducted a pilot audit at one major western university to evaluate the extent of, and need for, foreign and domestic travel charged to research projects with emphasis on travel indirectly related to the research projects.

We found that the university charged substantial travel costs directly to Federal contracts and grants which we could not determine were directly related to research projects. Our review also disclosed (1) direct travel charges for personnel not assigned to projects, (2) performance of travel prior to authorization, (3) excessive travel (first class), (4) conference and convention fees and society memberships charged directly to grants and contracts as travel, (5) excessive travel advances, and (6) travel costs where travelers' earned "Frequent Flyer" miles and did not credit the sponsored projects.

We estimate that this university could reduce its travel costs charged directly to research by approximately \$1 million through (1) the elimination of travel costs not identified as directly related to research projects; (2) the restriction of university per diem to General Services Administration rates; (3) the elimination of conference and convention fees and society memberships; and (4) better controls to identify unallowable or excessive costs.

We believe that travel costs not directly benefiting a project should be charged to the university accounts and included in the indirect cost rate. The Federal Government should not pay 100 percent of travel costs for presentation of papers and seminar attendance, or conference and convention fees and society memberships which also provide benefits to the university. We believe that OMB Circular A-21 needs to be clarified and revised to define these costs as indirect costs.

We believe additional audit efforts are necessary to reach persuasive conclusions, therefore, we plan to proceed with a nationwide review of travel costs. To facilitate the nationwide review, we will prepare an audit guide to be used at selected colleges and universities.

Survey of Indirect Costs Claimed for Subcontract Costs

The purpose of this survey was to determine whether universities properly exclude subcontract costs from the direct cost base prior to applying the indirect cost rate. The provisions of OMB Circular A-21 specify that indirect costs shall be distributed to applicable sponsored agreements on the basis of modified total direct costs (MTDC), consisting of salaries and wages, fringe benefits, materials and supplies, services, travel and subgrants and subcontracts up to \$25,000.

Our survey at two universities has not disclosed any problems relative to subcontracts and the indirect costs associated with each subcontract. One university does not include subcontracts in their direct cost base. We tested the subcontractor costs to be assured this was the case. We determined that the other university was in full compliance with their negotiated agreement

concerning the application of the subcontract costs applied to the direct cost base. Our preliminary conclusions are currently being formulated in a draft survey report which we expect to issue shortly.

Issuance of National Audit Guides

To ensure that the OIG's limited resources are utilized in the most effective and efficient manner and that audit coverage will continue to be provided to as many worthwhile areas as possible, considerable resources are required in the targeting and planning of audit assignments. It is through up-front surveys and planning that we carefully consider the reasons for the audit, clearly define the audit objectives and scope and outline a systematic series of audit procedures. This process results in the preparation of audit guides to provide auditors background information on the entity or issue being audited, as well as, identify our objectives, scope of audit, criteria to be applied, audit approach and reporting requirements.

During CY 1991, we issued national audit guides for reviews of indirect costs, lowest charge indirect cost rates, recharge center billing rates, utilization of research equipment and medical liability insurance cost at colleges and universities.

Through the preparation of carefully planned and clearly focused audit guides, we are able to efficiently provide the basis for current and future audits in potentially problematic areas. This up-front planning, required by generally accepted Government auditing standards, facilitates the effective and efficient assignment of resources in high-risk areas.

Long-Range Strategies

Our broad audit experience over the years, combined with our work with OMB to formulate and improve Federal guidelines on cost principles and organizationwide audits of colleges and universities, has provided us with many insights relative to the problems associated with funding Federal research. Early in CY 1991, we reviewed and evaluated our audit experiences, assessed current problems and issues at colleges and universities and identified changes brought about by the increased Federal deficit and competition for limited Federal resources. These efforts resulted in the development of a Long-Range Strategies for Reviewing the Financial and Programmatic Research Activities Conducted by Colleges, Universities and Nonprofit Organizations for the Federal Government. First published in March 1991, the long-range plan builds upon our body of work and is designed to address systematic internal control problems. The plan, which identifies approximately 40 areas of ongoing or planned audit work, focuses on four primary issues: (1) cost containment of rising research costs, (2) the indirect cost reimbursement

process, (3) the effectiveness and adequacy of Federal oversight of research funding, and (4) the OIG's role under OMB Circular A-133.

Six significant studies not already underway and included in the OIG's strategic plan are discussed below.

(1) Survey of Cost Containment Initiatives

The purpose of this survey will be to identify existing governmentwide cost containment initiatives which have been effective and determine if they might be applied to the college and university area. This survey will include a survey of cost control measures utilized in other Federal Departments, by the university and nonprofit community and the administration of other HHS programs.

(2) Identify Total Research Effort Indicating Cost Sharing

The audit will determine whether colleges and universities are properly identifying cost sharing on research projects and if they are properly including cost sharing in the development of indirect cost rates. The audit will also examine the merits of making cost sharing a mandatory part of federally sponsored research at colleges and universities.

Work performed directly on a research grant or contract that is not charged to the grant or contract is referred to as cost sharing. According to OMB Circular A-21, if cost sharing occurs, even though voluntary and informal, it should be included as part of the organized research base for determining the indirect cost rate to be applied to grants and contracts.

Past audits of salaries at colleges and universities showed that cost sharing is not always properly identified and accounted for in the determination of the indirect cost rate. This can result in a negotiated rate which is inflated. The extent of such practices and their impact on research costs will be examined during this review.

(3) Audit of Self-Insurance Funds

Under self-insurance programs, charges for insurance coverage are billed to users' departments within the institution. The Federal Government shares in the cost of self-insurance programs when grants and contracts are charged directly or indirectly for this cost. Self-insurance funds are intended to operate on a break-even basis through user charges for the risk coverage provided.

The purpose of this audit will be to determine the need for the self-insurance funds, the basis on which each fund's reserve balance was established, and to identify the self-insurance funds which have generated excess reserve balances and determine the Federal equity in such balances.

(4) Analysis of Salaries: Public vs. Private School

This audit will analyze differences found in salary levels at private and public institutions and determine whether cost saving measures might exist. Salaries and wages account for about 60 to 65 percent of the direct cost of research. This assignment will compare the salaries of researchers in public colleges and universities with those of researchers in private institutions.

(5) Audit of Expenses Related to Capital Leases

The purpose of this audit is to determine whether colleges and universities properly distinguish between capital leases and basic rental agreements. We will also determine whether colleges and universities are accounting for capital leases in accordance with generally accepted accounting principles.

(6) Audit of Small Purchase Process at Selected Institutions

The purpose of this audit is to determine whether small purchases are being accomplished in a manner that is effective, efficient, economical and in accordance with procurement regulations. We will determine if goods and services purchased are appropriate, comply with Federal procurement regulations and are in the best interest of the Government.

The Long-Range Strategies for Reviewing the Financial and Programmatic Research Activities Conducted by Colleges, Universities and Nonprofit Organizations for the Federal Government is a living document subject to revision and reprioritization as we identify and respond to ongoing developments. For example, a recent review of a contract cost proposal at a major northeastern university disclosed a need for review of the reasonableness of total compensation paid to graduate research students. In this regard, we found that proposed graduate students' compensation (wages plus tuition remission) exceeded the rate of pay for faculty members possessing a doctorate with several years of research experience. In 1991 this university charged about \$1.2 million to sponsored research projects as either tuition remission or continuing registration. Recent discussions with another Federal agency revealed the existence of the same potential audit risk at a second major northeastern university.

We have initiated a plan to survey total compensation of graduate research assistants as a high priority item in 1992. The survey will determine whether the charging to federally sponsored projects for compensation packages of graduate students is reasonable and whether OMB Circular A-21 guidelines on compensation should be strengthened. This process demonstrates the OIG's ability to respond to emerging issues and adjust our priorities as potentially high-risk areas are identified and developed in the dynamic college and university arena.

Department Task Force

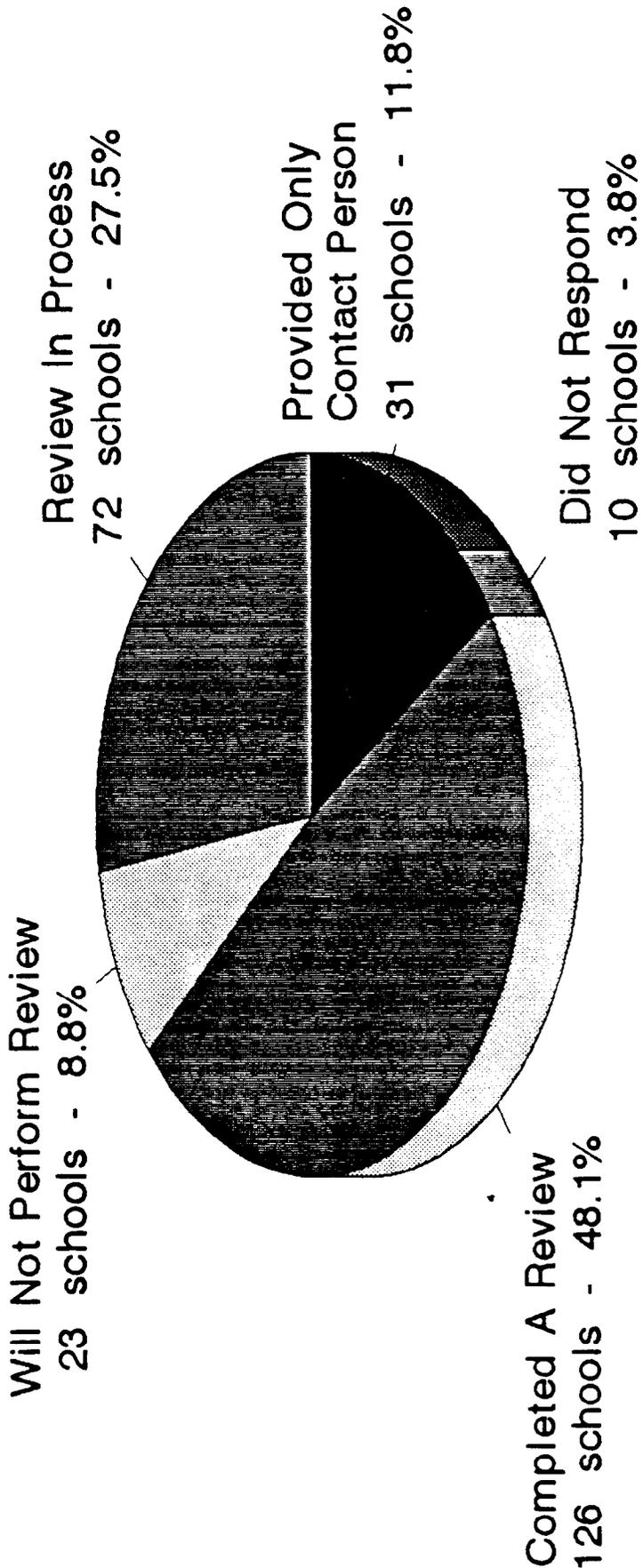
The Department as a whole is moving to address the serious issues surrounding research funding. Toward this end, a HHS working group was formed comprised of the Director, NIH, the ASMB and the Inspector General to study rising costs at colleges and universities. This task group is studying alternatives to the current cost reimbursement system. The group is in process of developing suggestions for a cost reimbursement system that can contain the increases in indirect costs, reduce the variability among rates at different universities, minimize the complexity of the current system, and assure better accountability and internal control. The task group is evaluating the current system and a number of options for reform. Included among these options are the expanded use of the simplified or short-form procedure for calculating indirect costs, the use of formula or flat rates in place of negotiated rates, and various modifications of the current system which would include capping various pools and the elimination or reform of other indirect cost centers.

CONCLUSIONS

Our audit findings, special studies, and implementation of OMB Circulars and the Single Audit Act have provided us with many insights into the problems in funding research. This knowledge and experience led to the development of the Long-Range Strategy for Reviewing the Financial and Programmatic Research Activities Conducted by Colleges, Universities and Nonprofit Organizations for the Federal Government (see page 19). The strategy builds upon our body of work and is designed to address systemic internal control problems. In addition, we have also demonstrated the flexibility to incorporate and plan audit work to address new issues as they emerge.

We believe that our current audit work, the establishment of a college and university data base, our long-range planning and our flexibility to move with emerging issues will enable the OIG to address significant concerns in the area of federally sponsored research during the 1990s.

EXHIBIT I
REQUESTS FOR UNIVERSITIES TO PERFORM
INTERNAL REVIEWS OF INDIRECT COSTS



262 Requests

SUMMARY OF UNIVERSITIES' COMPLETING
INTERNAL INDIRECT COST REVIEWS(A)

<u>UNIVERSITIES</u>	<u>FISCAL YEARS COVERED</u>	<u>UNALLOWABLE COSTS IDENTIFIED</u>	<u>REDUCTION OF INDIRECT COST RATE</u>	<u>UNIVERSITIES' COMMENTS (D)</u>
<u>Region I</u>				
University of Vermont	Not stated	Not stated	2.1%	Predetermined rates-does not plan to adj
Dartmouth College	FY90	\$ 943,295(B)	1.0%	
Harvard University	FY89	Not stated	No impact on rates	Negotiated rates cover adjustments
University of Massachusetts	FY88	Not stated	0.2%	Negotiated rates cover adjustments
Tufts University	Not stated	Not stated	1.0%	Negotiated rates cover adjustments
Yale University	FY89	\$ 1,041,700(B)	0.3%	
Boston University	FY90	Not stated	No impact on rates	
University of Connecticut	Not stated	\$ 27,000	0.1%	Negotiated rates cover adjustments
Worcester Poly Technology	FY89	\$ 7,391	No impact on rates	
Clark University	FY89	\$ 44,364	4.0%	Voluntary-political climate
University of New Hampshire	FY90	Not stated	No impact on rates	
University of Lowell	Not stated	Not stated	No impact on rates	
<u>Region II</u>				
Rensselaer Polytechnic Institute	Not stated	\$ 27,000	0.1%	Negotiated rates cover adjustments
Suny at Albany	Not stated	Not stated	Not determined	Include as adj. to next negotiation
N.J. Univ. of Medicine and Dentistry	Not stated	\$ 90,000	No impact on rates	Negotiated adjustment to last ICP
Rutgers University	FY88	\$ 9,196,973(C)	2.2%	
Rockefeller University	FY90	Not determined	Not determined	For future rates only
<u>Region III</u>				
The John Hopkins University	FY87	\$ 805,696(B)	Not determined	
University of Pittsburgh	FY90	\$ 528,681(B)	Not determined	
University of Pennsylvania	FY87	\$ 1,250,620(B)	Not determined	
Philadelphia College Osteopathic	Not stated	Not stated	No impact on rates	
Hampton University	Not stated	\$ 0	No impact on rates	
Gallaudet College	Not stated	Not stated	No impact on rates	
Bryn Mawr College	Not stated	Not stated	No impact on rates	Uses short-form
University of Maryland, Univ College	FY89-90	Not stated	No impact on rates	Recently concluded negotiations with DCA
University of Maryland Eastern Shore	Not stated	Not stated	No impact on rates	Uses short-form
Franklin and Marshall College	Not stated	Not stated	No impact on rates	
Medical College of Hampton Road	FY87-88	\$ 267,003	0.3%	
Slippery Rock University	Not stated	Not stated	No impact on rates	
West Virginia School of Osteopathic Med	Not stated	Not stated	No impact on rates	Primarily training grants, not research
George Washington University	FY86	\$ 20,000	Not yet determined	
University of Delaware	Not stated	Not Stated	Not yet determined	
University of Maryland	Not stated	Not Stated	Not yet determined	
Virginia Commonwealth University	Not stated	Not Stated	Not yet determined	

SUMMARY OF UNIVERSITIES' COMPLETING
INTERNAL INDIRECT COST REVIEWS(A)

<u>UNIVERSITIES</u>	<u>FISCAL YEARS COVERED</u>	<u>UNALLOWABLE COSTS IDENTIFIED</u>	<u>REDUCTION OF INDIRECT COST RATE</u>	<u>UNIVERSITIES' COMMENTS (D)</u>
<u>Region III (Continued)</u>				
Thomas Jefferson University	Not stated	Not stated	No impact on rates	Negotiated rates cover adjustments
Lehigh University	Not stated	Not stated	Not specified	Part of proposal preparation
Howard University	Not stated	Not stated	No impact on rates	Uses short-form
George Mason University	Not stated	Not stated	No impact on rates	Uses short-form
James Madison University	Not stated	\$ 0	No impact on rates	Uses short-form
West Chester University	Not stated	Not stated	No impact on rates	Uses short-form
Bucknell University	Not stated	Not stated	No impact on rates	Uses short-form
Morgan State University	Not stated	\$ 0	No impact on rates	Recently concluded negotiations with DCA
Towson State University	FY89	Not stated	No impact on rates	Uses short-form
Allegheny College	Not stated	Not stated	No impact on rates	Uses short-form
Pennsylvania College of Optometry	Not stated	\$ 0	No impact on rates	
Haverford College	FY90	Not stated	No impact on rates	
<u>Region IV</u>				
North Carolina State	FY88	Not stated	No impact on rates	
University of North Carolina	FY90	\$ 18,000	No impact on rates	
University of Miami	FY87	\$ 827,734(B)	Not determined	
Emory University	FY89	\$ 587,200(B)	Not determined	
Duke University	FY89	\$ 918,188(B)	Not determined	
Medical University of South Carolina	FY90	Not stated	No impact on rates	
University of Georgia	Not stated	\$ 0	No impact on rates	
University of Tennessee	FY91	\$ 0	No impact on rates	Negotiated rates cover adjustments
University of Kentucky	Not stated	Not stated	No impact on rates	
Medical College of Georgia	Not stated	\$ 0	No impact on rates	
University of South Carolina	FY90	Not stated	No impact on rates	Negotiated rates cover adjustments
University of Mississippi Med Center	Not stated	Not stated	No impact on rates	
University of Louisville	FY90	\$ 231,191	No impact on rates	Negotiated rates cover adjustments
University of North Carolina, Charlotte	Not stated	Not stated	No impact on rates	
University of Alabama, Tuscaloosa	FY88	Not stated	No impact on rates	
Florida Atlantic University	Not stated	\$ 0	No impact on rates	Uses short-form
East Carolina University	Not stated	\$ 0	No impact on rates	Uses short-form
Memphis State University	FY89	\$ 30,873	No impact on rates	
Kentucky State University	FY87-91	\$ 0	No impact on rates	Uses short-form
North Carolina Agric & Technical	FY91	\$ 53,317	No impact on rates	
Middle Tennessee State University	Not stated	\$ 0	No impact on rates	
University of Tennessee, Chattanooga	Not stated	Not stated	No impact on rates	
Florida International University	FY88	\$ 38,315	No impact on rates	Negotiated rates cover adjustments
Albany State College	Not stated	\$ 0	0.1%	
			No impact on rates	

SUMMARY OF UNIVERSITIES' COMPLETING
INTERNAL INDIRECT COST REVIEWS(A)

<u>UNIVERSITIES</u>	<u>FISCAL YEARS COVERED</u>	<u>UNALLOWABLE COSTS IDENTIFIED</u>	<u>REDUCTION OF INDIRECT COST RATE</u>	<u>UNIVERSITIES' COMMENTS (D)</u>
<u>Region IV (Continued)</u>				
University of Florida	Not stated	\$ 0	No impact on rates	
University of Alabama, Huntsville	FY90	\$ 45,376	Not indicated	Withdrawn from G&A in FY90 ICP
University of South Alabama	Not stated	\$ 0	No impact on rates	
Auburn University	Not stated	\$ 0	No impact on rates	
Univ. of North Carolina, Greensboro	Not stated	\$ 16,650	No impact on rates	
Wake Forest University	Not stated	\$ 0	No impact on rates	
University of Tennessee Ctr Health	Not stated	\$ 1,556	No impact on rates	
Florida Institute of Technology	Not stated	\$ 11,714	Not indicated	
Clark Atlanta University	Not stated	\$ 0	No impact on rates	Uses short-form
Clemson University	Not stated	\$ 11,300	Not indicated	Will adjust in current ICP
<u>Region V</u>				
Northwestern University	FY91	\$ 0	No impact on rates	
Michigan State University	FY90	\$ 400,000	Excluded from FY90 ICP	
University of Chicago	FY90	\$ 1,514,608(C)	0.3%	
Wayne State University	FY90	Not stated	To be determined	Part of finalizing FY91/92 fixed rate
Ohio State University	FY90	Not stated	No impact on rates	Negotiated rates cover adjustments
Purdue University	FY90	Not stated	0.1%	Negotiated rates cover adjustments
Medical College of Wisconsin	Not stated	\$ 0	No impact on rates	
University of Michigan	FY89	\$ 8,285,157(B)	1.9%	
Indiana University	Not stated	Not stated	No impact on rates	Negotiated rates cover adjustments
Oakland University	Not stated	Not stated	No impact on rates	
<u>Region VI</u>				
University of Arkansas	Not stated	\$ 0	No impact on rates	
University of Ark for Medical Science	FY90	\$ 19,610	0.3%	Negotiated rates cover adjustments
University of New Mexico	Not stated	Not stated	0.7%	Negotiated rates cover adjustments
Rice University	Not stated	Not stated	No impact on rates	
Texas A&M University System	Not stated	\$ 0	No impact on rates	
Southern Methodist University	FY88	\$ 0	No impact on rates	
University of Texas, Austin	FY88 & FY89	\$ 3,860,573	2.75% on-campus	Negotiated rates cover adjustments
University of Texas, SW Med Cntr Dallas	FY89	\$ 32,537(B)	No impact on rate	Negotiated rates cover adjustments
<u>Region VII</u>				
Iowa State University	Not stated	\$ 0	No impact on rates	
Kansas State University	Not stated	Not stated	No impact on rates	
University of Kansas	FY89	\$ 0	No impact on rates	
University of Kansas Med Center	Not stated	\$ 0	No impact on rates	

SUMMARY OF UNIVERSITIES' COMPLETING
INTERNAL INDIRECT COST REVIEWS(A)

<u>UNIVERSITIES</u>	<u>FISCAL YEARS COVERED</u>	<u>UNALLOWABLE COSTS IDENTIFIED</u>	<u>REDUCTION OF INDIRECT COST RATE</u>	<u>UNIVERSITIES' COMMENTS (D)</u>
<u>Region VII (Continued)</u>				
University of Nebraska	Not stated	Not stated	0.4%	Negotiated rates cover adjustments
University of Nebraska Med Center	Not stated	\$ 15,603	0.3%	Negotiated rates cover adjustments
University of North Dakota	FY90	\$ 0	No impact on rates	
University of Colorado	FY89	\$ 570,222	Part of neg. rates	Notified DCA prior to rate negotiation
University of Colorado Health Sci Cntr	FY90	\$ 626,919	0.4%	Adjustment to FY92/93 rate negotiation
Washington University	FY90	\$ 2,709,766(C)	Not determined	
<u>Region IX</u>				
Arizona State University	Not stated	Not stated	No impact on rates	
University of Arizona	Not stated	\$ 106,218	Not indicated	Subsequent review by DCA and IG
University of Washington	FY88 & FY89	\$ 110,000	0.1%	Will settle cost issues with HHS
University of Southern California	FY90	\$ 3,121,063(C)	0.6%	
University of California, Oakland	"Several years"	Not stated	No impact on rates	Partial review (Pres Office)
University of California, Berkeley	"	"	"	"
University of California, Davis	"	"	"	"
University of California, Irvine	"	"	"	"
University of California, Los Angeles	"	"	"	"
University of California, Riverside	"	"	"	"
University of California, San Diego	"	"	"	"
University of California, San Francisco	"	"	"	"
University of California, Santa Barbara	"	"	"	"
University of California, Santa Cruz	"	"	"	"
California State Univ., Northridge	Not stated	Not stated	No impact on rates	
University of Nevada, Las Vegas	Not stated	Not stated	No impact on rates	
University of Idaho	Not stated	Not stated	No impact on rates	
University of Oregon	Not stated	\$ 0	No impact on rates	
		\$20,389,209		
UNALLOWABLE COSTS IDENTIFIED THROUGH OIG AUDITS:		11,374,009		
UNALLOWABLE COSTS ID BY UNIVERSITIES PRIOR TO OIG AUDITS:		6,650,195(E)		
UNALLOWABLE COSTS ID BY UNIVERSITIES WITHOUT OIG AUDITS :				
TOTAL UNALLOWABLE COSTS IDENTIFIED:		\$38,413,413		
		=====		

SUMMARY OF UNIVERSITIES' COMPLETING
INTERNAL INDIRECT COST REVIEWS

Notes:

- (A) This list includes 14 schools where the OIG conducted audits. Four of the universities conducted their own review prior to the start of the OIG's audit.
- (B) Unallowable costs identified by OIG (14 universities).
- (C) Unallowable costs identified by OIG and universities (4 of 14 universities audited by OIG).
- (D) All unallowable costs and reduction of indirect cost rates identified, except as noted in (A), are the representations of the universities. (25 of remaining 112 universities disclosed \$6,650,195 unallowable costs) We are currently reviewing universities' internal reviews as well as issuing management attestation letters and audit survey instruments to selected universities.
- (E) This amount understated. For the most part, universities did not disclose unallowable costs if they believed that indirect cost rate adjustments were not warranted.

SUMMARY OF UNIVERSITIES WHICH WILL NOT PERFORM
INTERNAL INDIRECT COST REVIEWS

UNIVERSITIES	"SHORT FORM" TO COMPUTE ICP	BELIEVE NO INAPPROPRIATE COSTS	MINIMAL FEDERAL DOLLARS	RECENT AUDIT OR REVIEW	WILL REVIEW IN FUTURE	MISC.	UNIVERSITIES' COMMENTS
Tennessee Tech University	X						Tenn Comptroller annually audits grants and contracts
Mercer University	X						Not necessary but will perform with specific guidance
Georgia State University	X						1st "long form" effort reflects absence of unallowables
Univ. of Arkansas, Little Rock	X						Controversy directed at schools which use "long form"
Univ. of Houston, Clear Lake	X						Will review when change made to "long form" computation
Lincoln University	X						No inappropriate items included in ICP
University of Scranton		X					Very conservative - follows A-21 to the letter
College of Misericordia		X					Believes no inappropriate costs in ICP
Meharry Medical College		X					Conservative ICP submittals-DCA negotiations sufficient
University of South Florida		X					Have examined indirect cost practices in past
Tennessee State University		X					Believes no inappropriate costs in ICP
University of Tennessee Systems		X					Believes no inappropriate costs in ICP
Clarkson University			X				Only \$2.5 million Federal\$ in MIDC base
Trinity College			X				Small degree of govt. grants - "bare bones" operation
LaSalle University			X				Primarily teaching institution - very few federal grants
Loyola College of Maryland			X				Low indirect cost reimbursement
Albany Medical College				X			OLG audited FY88 ICP used to establish FY88-94 rates
Univ. of Alabama, Birmingham				X			In-depth review made of FY88 ICP by CPAs
Tulane University				X			FY88 ICP reviewed - A-133 currently being performed
Texas Tech University					X		Will perform after proposed OMB A-21 changes
Utah State University					X		Will perform as part of next ICP preparation (FY94)
Chancellor State University						X	Review N/A - State Univ system distributes awards
Georgetown University						X	Will eliminate admin accounts f/ ICP during negotiations
Totals: 23 Universities	6	6	4	3	2	2	

SUMMARY OF UNIVERSITIES WHICH HAVE NOT RESPONDED TO
IG REQUEST FOR INTERNAL INDIRECT COST REVIEWS

UNIVERSITIES	SENT IG LETTER	SENT RIGA LETTER	UNIVERSITY DID NOT RESPOND
New York School for Soc Research		X	X
Fort Valley State College		X	X
Florida A&M University		X	X
East Tennessee State University		X	X
Alcorn State University		X	X
Jackson State University		X	X
Mississippi Valley State University		X	X
Fisk University		X	X
Loyola University		X	X
Michigan Tech University		X	X
Totals: RIGA Letter			10

STATUS OF RESPONSES
FOR AUDIT SURVEY INSTRUMENT

UNIVERSITY	COMPLETED INSTRUMENT	IN PROCESS OF COMPLETING INSTRUMENT	WILL NOT COMPLETE INSTRUMENT	WILL FIRST PERFORM IDC SCRUB	NO RESPONSE TO DATE	COMMENTS
Region I						
Tufts University	X					
Univ. of Massachusetts		X				
Univ. of Connecticut	X					
Region II						
City College of N.Y.		X			X	Requested extension Instrument sent 10/30/90
Univ. of Med. & Dent. of N.J.						
Region III						
Hahnemann University	X				X	Instrument sent 9/30/91
Temple University						
Thomas Jefferson University	X				X	Instrument sent 10/28/91
Old Dominion						
Penn College of Podiatric Med	X					
Region IV						
University of NC, Chapel Hill	X				X	Response forwarded to NY DCA Instrument sent 11/20/91
University of Georgia					X	Instrument sent 11/20/91
University of Florida						
Region V						
University of Wisconsin	X				X	Instrument sent 10/30/91
Northwestern University					X	Instrument sent 10/30/91
University of Minnesota						
Region VI						
Oklahoma State University	X				X	Instrument sent 11/15/91
Univ. of Texas, Arlington						
Region VII						
University of Colorado	X				X	Instrument sent 11/15/91
University of Utah						
Region IX						
University of Washington		X			X	Close to completion Instrument sent 10/4/91
University of Arizona					X	Instrument sent 10/4/91
University of Cal, San Diego						
Totals: 25 Universities	9	3			11	