

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**THOMAS JEFFERSON UNIVERSITY  
GENERALLY CLAIMED SELECTED COSTS  
CHARGED DIRECTLY TO DEPARTMENT  
OF HEALTH AND HUMAN SERVICES  
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](mailto:Public.Affairs@oig.hhs.gov).*



**Stephen Virbitsky  
Regional Inspector General**

**June 2013  
A-03-11-03300**

# *Office of Inspector General*

<https://oig.hhs.gov>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

## *Office of Evaluation and Inspections*

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

## *Office of Investigations*

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

---

**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <https://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **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**

### **BACKGROUND**

#### **Thomas Jefferson University**

Thomas Jefferson University (Jefferson) is a private health sciences institution located in Philadelphia, Pennsylvania. For the period October 1, 2008, through September 30, 2010, Jefferson claimed reimbursement for approximately \$63.0 million in costs incurred on 528 grants, contracts, and other agreements (awards) with components of the Department of Health and Human Services (HHS). In addition to its regular funding through awards, Jefferson received 52 grants totaling \$6.2 million in funding provided by the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (February 17, 2009).

#### **Cost Principles**

By accepting HHS awards, Jefferson 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 Office of Management and Budget Circular A-21 (2 CFR part 220). These cost principles require that, to be allowable, costs must be reasonable, be allocable, and conform to any exclusions or limitations set forth in the cost principles or sponsored agreements. In addition, National Institutes of Health (NIH) awards are subject to NIH guidelines.

#### **Award Administration**

Jefferson's Office of Research Administration accepts and administers awards for Jefferson. Jefferson's Office of Research Administration also is responsible for monitoring funded awards for compliance and submission of reports.

Principal investigators are responsible for all programmatic and administrative aspects of an award, including the conduct of research or other activity described in a proposal for an award.

### **OBJECTIVE**

Our objective was to determine whether selected costs that Jefferson charged to HHS awards were allowable.

### **SUMMARY OF FINDINGS**

Jefferson generally claimed selected costs charged to HHS awards in accordance with Federal regulations. In our sample of 100 salary transactions, 99 were allowable, and 1 was unallowable. In our sample of 104 nonsalary transactions, 85 were allowable, and 19 were either unallowable or partially unallowable. Using our sample results, we estimated that, of the \$5,744,639 covered by our review, Jefferson charged \$96,418 in unallowable costs to HHS awards. As a result of discussions during our review, Jefferson transferred \$3,316 in unallowable direct nonsalary costs

from 14 HHS awards to non-Federal funding sources. Accordingly, we reduced the total questioned costs to \$93,102.

Jefferson did not always provide adequate oversight to ensure consistent compliance with Federal regulations. As a result, Jefferson claimed some unallowable costs.

## **RECOMMENDATIONS**

We recommend that Jefferson:

- refund \$93,102 to the Federal Government and
- enhance oversight of charges to Federal awards to ensure compliance with Federal regulations.

## **THOMAS JEFFERSON UNIVERSITY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, Jefferson did not concur with our first recommendation. Jefferson stated that it had adequately documented the four salary transactions we questioned and provided additional explanation and documentation with its comments. Jefferson concurred with our finding for 13 of the nonsalary transactions and provided additional documentation and explanations for the remaining 7 of the 20 nonsalary transactions questioned in our draft report. Jefferson also described the action it had taken to address our second recommendation.

Based on our analysis of Jefferson's comments and additional documentation provided, we allowed 3 of the 4 salary transactions and 1 of the 20 nonsalary transactions questioned in our draft report. We revised our findings and our first recommendation accordingly. Jefferson did not provide complete support for the remaining transactions charged directly to Federal awards. Therefore, we continue to find 19 nonsalary transactions unallowable.

## TABLE OF CONTENTS

	<u>Page</u>
<b>INTRODUCTION</b> .....	1
<b>BACKGROUND</b> .....	1
Thomas Jefferson University .....	1
Cost Principles .....	1
Award Administration .....	1
<b>OBJECTIVE, SCOPE, AND METHODOLOGY</b> .....	1
Objective .....	1
Scope.....	2
Methodology .....	2
<b>FINDINGS AND RECOMMENDATIONS</b> .....	3
<b>FEDERAL REGULATIONS AND GUIDELINES</b> .....	4
<b>UNALLOWABLE COSTS</b> .....	5
Salary Costs .....	5
Nonsalary Costs .....	5
<b>CONTROLS NOT ALWAYS ADEQUATE</b> .....	6
<b>ESTIMATE OF UNALLOWABLE COSTS</b> .....	6
<b>RECOMMENDATIONS</b> .....	6
<b>THOMAS JEFFERSON UNIVERSITY COMMENTS</b> .....	6
<b>OFFICE OF INSPECTOR GENERAL RESPONSE</b> .....	6
<b>APPENDIXES</b>	
A: SAMPLE DESIGN AND METHODOLOGY—NONSALARY TRANSACTIONS	
B: SAMPLE RESULTS AND ESTIMATES—NONSALARY TRANSACTIONS	
C: THOMAS JEFFERSON UNIVERSITY COMMENTS	

## INTRODUCTION

### BACKGROUND

#### Thomas Jefferson University

Thomas Jefferson University (Jefferson) is a private health sciences institution located in Philadelphia, Pennsylvania. For the period October 1, 2008, through September 30, 2010, Jefferson claimed reimbursement for approximately \$63.0 million in costs incurred on 528 grants, contracts, and other agreements (awards) with components of the Department of Health and Human Services (HHS). In addition to its regular funding through awards, Jefferson received 52 grants totaling \$6.2 million in funding provided by the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (February 17, 2009).

#### Cost Principles

HHS grant administration rules require recipients of grant awards to comply with regulations governing the use of Federal funds and to ensure that costs charged to those awards were allowable under the applicable cost principles (45 CFR § 74.27(a)). The Federal cost principles for educational institutions are located in 2 CFR part 220.<sup>1</sup> These cost principles require that, to be allowable, costs must be reasonable, be allocable, and conform to any exclusions or limitations set forth in the cost principles or sponsored agreements. In addition, National Institutes of Health (NIH) awards are subject to NIH guidelines.

#### Award Administration

Jefferson's Office of Research Administration accepts and administers awards for Jefferson. Jefferson's Office of Research Administration also is responsible for monitoring funded awards for compliance and submission of reports.

Principal investigators are responsible for all programmatic and administrative aspects of an award, including the conduct of research or other activity described in a proposal for an award.

### OBJECTIVE, SCOPE, AND METHODOLOGY

#### Objective

Our objective was to determine whether selected costs that Jefferson charged to HHS awards were allowable.

---

<sup>1</sup> Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions*, was relocated to 2 CFR part 220.

## Scope

Our audit covered \$3.3 million in salary transactions and \$2.4 million in nonsalary transactions claimed for reimbursement for the period October 1, 2008, through September 30, 2010 (fiscal years (FY) 2009 and 2010). We limited the audit to awards by organizational components of HHS. A small number of the transactions in our sample were charged to Recovery Act awards. We did not evaluate transactions charged to Jefferson's agreements with other Federal departments and agencies.

We limited our assessment of internal controls to Jefferson's policies and procedures for charging costs to Federal awards. We conducted our fieldwork between February and September 2011 at Jefferson's offices in Philadelphia, Pennsylvania.

## Methodology

To accomplish our objective, we:

- reviewed applicable Federal regulations and NIH guidelines;
- reviewed Jefferson's policies and procedures for charging costs to Federal awards;
- reviewed Jefferson's Cost Accounting Standards Board Disclosure Statement (DS-2);<sup>2</sup>
- obtained all salary transactions for FYs 2009 and 2010 and removed all non-HHS transactions, all transactions that were not administrative and clerical positions, and transactions less than \$100;
- evaluated the allowability of salary amounts charged to HHS awards;
- obtained a list of nonsalary account codes from Jefferson's Chart of Accounts that potentially included administrative expenses charged directly to Federal programs and reviewed all transactions from these accounts for FYs 2009 and 2010;
- reviewed and discussed Jefferson's Chart of Accounts to determine whether nonsalary accounts, other than those identified by Jefferson, contained administrative transactions;
- removed all non-HHS transactions and transactions less than \$5 from the nonsalary transactions list to arrive at our audit population of \$2,394,846;
- selected and determined the allowability of a stratified random sample of 104 nonsalary transactions (Appendix A);

---

<sup>2</sup> Educational institutions that receive aggregate sponsored agreements totaling \$25.0 million or more are required to disclose their cost accounting practices by filing a disclosure statement (DS-2). Jefferson submitted a DS-2 to the HHS Division of Cost Allocation (DCA) in December 1997; however, we determined that DCA had not reviewed it because it was waiting for an updated version. In February 2011, as a result of our audit, Jefferson re-submitted its updated DS-2 to DCA.

- selected and determined the allowability of a stratified random sample of 100 salary transactions;<sup>3</sup>
- computed the facilities and administrative (F&A) costs related to these unallowable and partially unallowable transactions; and
- estimated the unallowable nonsalary amounts that were charged to HHS awards (Appendix B).

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 objective.

### **FINDINGS AND RECOMMENDATIONS**

Jefferson did not always claim selected costs charged to HHS awards in accordance with Federal regulations. In our sample of 100 salary transactions, 99 were allowable, and 1 was unallowable. In our sample of 104 nonsalary transactions, 85 were allowable, and 19 were either unallowable or partially unallowable. Using our sample results, we estimated that, of the \$5,744,639 covered by our review, Jefferson charged \$96,418 in unallowable costs to HHS awards.

#### **Unallowable Costs Charged to HHS Awards During FYs 2009 and 2010**

<b>Costs</b>	<b>Estimated Unallowable Amount</b>
Salary Costs	\$3,129
Related Fringe Benefits	776
Related F&A Costs	<u>2,129</u>
Unallowable Salary Costs	<u>6,034</u>
 Nonsalary Costs <sup>4</sup>	 58,328
Related F&A Costs	<u>32,056</u>
Unallowable Nonsalary Costs	<u>90,384</u>
 Subtotal, Unallowable Costs	 <u>\$96,418</u>
 Less: Jefferson adjustment	 (3,316)
 <b>Total Unallowable Costs</b>	 <b><u>\$93,102</u></b>

---

<sup>3</sup> Because we found only a minimal number of unallowable salary transactions in our sample, we questioned actual unallowable salary costs and fringe benefits and did not estimate a disallowance based on the population.

<sup>4</sup> See Appendix B.

As a result of discussions during our review, Jefferson transferred \$3,316 in unallowable direct nonsalary costs from 14 HHS awards to non-Federal funding sources (see adjustment on the previous page). Accordingly, we reduced the total questioned costs to \$93,102.

Jefferson did not always provide adequate oversight to ensure consistent compliance with Federal regulations. As a result, Jefferson claimed some unallowable costs.

## **FEDERAL REGULATIONS AND GUIDELINES**

HHS grant administration rules require recipients of grant awards to comply with regulations governing the use of Federal funds and to ensure that costs charged to those awards are allowable under its applicable cost principles (45 CFR § 74.27(a)). The *Cost Principles for Educational Institutions* require that, to be allowable, costs must be reasonable, be allocable, be treated consistently, and conform to any exclusions or limitations set forth in the cost principles or sponsored agreements (2 CFR part 220, App. A, § C.2).

Pursuant to 2 CFR part 220, App. A, § C.3:

A cost may be considered reasonable if the nature of the goods or services acquired or applied ... reflect the action that a prudent person would have taken under the circumstances.... Major considerations involved in the determination of the reasonableness of a cost are: whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement ... Federal and State laws and regulations, and sponsored agreement terms and conditions; whether or not the individuals concerned acted with due prudence ... and, the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices....

Pursuant to 2 CFR part 220, App. A, § C.4.a:

A cost is allocable to a sponsored agreement if it is incurred solely to advance the work under the sponsored agreement; it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods, or it is necessary to the overall operation of the institution and ... is deemed to be assignable in part to sponsored projects.

Included in 2 CFR part 220, App. A, § F.6.b is specific guidance regarding the treatment of charges for administrative and clerical expenses incurred within various departments of a college or university: “The salaries of administrative and clerical staff should normally be treated as F&A costs” (section F.6.b.2). In addition, “Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs” (section F.6.b.3). The cost principles further state, “Costs of the institution’s membership in business, technical, and professional organizations are allowable” (2 CFR part 220, App. A, § J.33.a).

Federal regulations require recipients' financial management systems to provide for accounting records, including cost accounting records, that are supported by source documentation (45 CFR § 74.21(b)(7)).

## **UNALLOWABLE COSTS**

### **Salary Costs**

Of the 100 transactions in our sample of salary costs, one transaction was unallowable. Specifically, the transaction, totaling \$3,129, lacked supporting documentation to corroborate the amount of effort charged to the award.<sup>5</sup>

We determined that the unallowable salary transactions resulted in overcharges of \$3,129 to HHS awards and calculated applicable fringe benefits costs of \$776 and F&A costs of \$2,129. We determined that unallowable salary costs totaled \$6,034.

### **Nonsalary Costs**

Of the 104 transactions in our sample of nonsalary costs, 19 transactions included unallowable costs. Specifically:

- Fifteen transactions totaling \$2,980 were for expenses such as office supplies and general use equipment that should have been treated as F&A costs and not charged directly to the awards. For example, one transaction totaling \$915 was charged for a general use laptop and related accessories.<sup>6</sup> For another transaction, Jefferson charged \$169 to an award for items such as binder clips, super glue, post-it notes and pens.<sup>7</sup>
- Two transactions totaling \$613 were unallowable for the grants to which they were charged. For example, one transaction totaling \$170 was for an individual's on-campus housing "in lieu of a consulting fee," although no evidence of the consultation was provided. Additionally, the individual was never hired as a consultant on the project.<sup>8</sup>
- Two transactions totaling \$75 were for items that were not allowable costs pursuant to Federal regulations. For example, one transaction was for an individual's membership in a professional organization.<sup>9</sup> Only costs for the institution's memberships are allowable; therefore, the individual membership should not have been charged to the award.

---

<sup>5</sup> Award entitled *Low Vision Depression Prevention Trial for Age Related Macular Degeneration*.

<sup>6</sup> Award entitled *Basic and Translational Research Program (BTRP) in Sickle Cell Disease*.

<sup>7</sup> Award entitled *Low Vision Depression Prevention Trial for Age Related Macular Degeneration*.

<sup>8</sup> Award entitled *Molecular Physiology of Voltage-gated Ion Channels*.

<sup>9</sup> Award entitled *Reducing Family Caregiver Upset with Disruptive Behavior*.

Based on our sample results, we estimated that these unallowable nonsalary transactions resulted in overcharges of \$90,384 to HHS awards during our audit period: \$58,328 in nonsalary costs, and \$32,056 in related F&A costs (see Appendix B). However, during our audit, Jefferson transferred nonsalary costs totaling \$3,316 to non-HHS funding sources. Accordingly, we reduced the questioned nonsalary costs from \$90,384 to \$87,068.

## **CONTROLS NOT ALWAYS ADEQUATE**

Jefferson's oversight did not ensure that the costs it charged to HHS awards were allowable. Jefferson's Office of Research Administration generally did not review nonsalary transactions less than \$5,000. As a result, Jefferson did not always ensure that the departments and principal investigators proposed transactions that fully complied with Federal regulations.

## **ESTIMATE OF UNALLOWABLE COSTS**

Based on our sample results, we estimated that Jefferson charged unallowable transactions of \$96,418 to HHS awards. However, during our audit, Jefferson transferred \$3,316 to non-Federal funding sources. Accordingly, we reduced the total questioned costs to \$93,102.

## **RECOMMENDATIONS**

We recommend that Jefferson:

- refund \$93,102 to the Federal Government and
- enhance oversight of charges to Federal awards to ensure compliance with Federal regulations.

## **THOMAS JEFFERSON UNIVERSITY COMMENTS**

In written comments on our draft report, Jefferson did not concur with our first recommendation. Jefferson stated that it had adequately documented the four salary transactions we questioned and provided additional explanation and documentation with its comments. Jefferson concurred with our finding for 13 of the nonsalary transactions and provided additional documentation and explanations for the remaining 7 of the 20 nonsalary transactions questioned in our draft report. Jefferson also described the action it had taken to address our second recommendation.

Jefferson's comments are included as Appendix C. At Jefferson's request, we redacted the comments because they contained confidential information.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

We reviewed Jefferson's comments and additional documentation provided and allowed 3 of the 4 salary transactions and 1 of the 20 nonsalary transactions questioned in our draft report. We revised our findings and related recommendation accordingly. Jefferson did not provide complete support for the remaining transactions charged directly to Federal awards. Therefore, we continue to find 19 nonsalary transactions unallowable.

# **APPENDIXES**

## APPENDIX A: SAMPLE DESIGN AND METHODOLOGY— NONSALARY TRANSACTIONS

### POPULATION

The population consisted of nonsalary transactions that were charged directly to the Department of Health and Human Services (HHS) awards, including Recovery Act awards, from fiscal years (FY) 2009 and 2010. These transactions were for account codes that potentially included administrative expenses.

### SAMPLING FRAME

We received from Thomas Jefferson University two separate Excel files (one for each FY) containing nonsalary transactions from account codes that potentially included administrative expenses in FYs 2009 and 2010. We combined these two files into one Excel file containing 5,408 nonsalary transactions totaling \$2,485,558. We identified and removed 746 transactions totaling \$324,035 that were not charged to HHS awards. We then removed 306 transactions of less than \$5. The remaining 4,356 transactions totaling \$2,394,846 were our sampling frame.

### SAMPLE UNIT

The sample unit was a transaction.

### SAMPLE DESIGN

We used a stratified random sample containing three strata as follows:

<b>Stratum</b>	<b>Range</b>	<b>Number of Transactions</b>	<b>Value of Transactions</b>
1	\$5.00 through \$100.00	1,915	\$82,249
2	\$100.01 through \$25,000	2,437	2,002,102
3	\$25,000.01 and above	4	310,495
	<b>Total</b>	<b>4,356</b>	<b>\$2,394,846</b>

### SAMPLE SIZE

We selected a sample of 104 transactions. The sample size by stratum was:

<b>Stratum</b>	<b>Number of Sample Items</b>
1	30
2	70
3	4
<b>Total</b>	<b>104</b>

## **SOURCE OF RANDOM NUMBERS**

We used the Office of Inspector General, Office of Audit Services (OAS), statistical software to generate 30 random numbers for stratum 1 and 70 random numbers for stratum 2.

## **METHOD OF SELECTING SAMPLE ITEMS**

We consecutively numbered the sample frame. After generating the random numbers for strata 1 and 2, we selected the corresponding frame items. For stratum 3, we selected all the items.

## **ESTIMATION METHODOLOGY**

We used the OAS statistical software to estimate the amount of unallowable nonsalary costs claimed as direct costs. We also calculated the amount of unallowable facilities and administrative costs associated with the estimated unallowable nonsalary costs.

**APPENDIX B: SAMPLE RESULTS AND ESTIMATES—  
NONSALARY TRANSACTIONS**

**Sample Results: Unallowable and Partially Unallowable Transactions**

<b>Stratum</b>	<b>Frame Size</b>	<b>Value of Frame</b>	<b>Sample Size</b>	<b>Value of Sample</b>	<b>Number of Transactions With Errors</b>	<b>Value of Transaction Errors</b>	<b>Value of F&amp;A Associated With Transaction Errors<sup>1</sup></b>
1	1,915	\$82,249	30	\$1,108	10	\$302	\$165
2	2,437	2,002,102	70	105,448	9	3,366	1,847
3	4	310,495	4	310,495	0	0	0
<b>Total</b>	<b>4,356</b>	<b>\$2,394,846</b>	<b>104</b>	<b>\$417,051</b>	<b>19</b>	<b>\$3,668</b>	<b>\$2,012</b>

**Estimated Value of Unallowable Transactions**  
*(Limits Calculated for a 90-Percent Confidence Interval)*

	<u><b>Unallowable Transactions</b></u>	<u><b>Unallowable F&amp;A</b></u>
Point estimate	\$136,453	\$74,847
Lower limit	58,328	32,056
Upper limit	214,578	117,639

---

<sup>1</sup> We applied the applicable facilities and administrative (F&A) rate to each unallowable nonsalary transaction and added the amounts to arrive at the F&A associated with the unallowable nonsalary transactions.

## APPENDIX C: THOMAS JEFFERSON UNIVERSITY COMMENTS



Department of Finance

T 215.503.7570 F 215.503.9663

February 11, 2013

**VIA ELECTRONIC MAIL AND FEDERAL EXPRESS OVERNIGHT**

Stephen Virbitsky, Regional Inspector for Audit Services  
Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services, Region III  
Public Ledger Building, Suite 316  
150 Independence Mall West  
Philadelphia, PA 19106

Re: Report Number: A-03-11-03300

Dear Mr. Virbitsky:

Thomas Jefferson University provides its written response to the U.S. Department of Health and Human Services, Office of Inspector General ("OIG") November 29, 2012 draft report entitled "Thomas Jefferson University Generally Claimed Selected Costs Charged Directly to Department of Health and Human Services Awards in Accordance With Federal Regulations".

As instructed, our response is provided in paper copy and electronically in a PDF format. Our response consists of the enclosed document titled "Thomas Jefferson University's Response to OIG Draft Report", which references the attached Schedule A and exhibits containing supporting documentation for those transactions Jefferson asserts are allowable. Jefferson requests that the OIG maintain the confidentiality of our transaction-by-transaction discussion and supporting documentation.

Jefferson appreciates the opportunity to provide a response. We would be happy to respond to any questions that you may have or requests for additional documentation. We request the opportunity to meet with you and your team as you consider the material we submitted prior to the issuing of the final report.

Thank you.

Sincerely,

Steven McKenzie, M.D., Ph.D.  
Former Vice President for Research

Alfred C. Salvato  
Senior Vice President, Finance and Chief  
Investment Officer

Enclosure

**Redacted pages 2 through 6 at Jefferson's request.**

## **Thomas Jefferson University—Response to Draft Audit Report**

Thomas Jefferson University (“Jefferson”) submits these comments in response to the November 29, 2012 US Department of Health and Human Services, Office of Inspector General (“OIG”) draft report entitled “*Thomas Jefferson University Generally Claimed Selected Costs Charged Directly to Department of Health and Human Services Awards in Accordance with Federal Regulations*” (the “OIG Draft Report”).

The OIG made two (2) recommendations in its OIG Draft Report. First, the OIG recommends that Jefferson refund \$124,009 to the Federal Government. Jefferson does not concur with the amount of refund requested based on its rationale under Section I below. Jefferson respectfully requests the OIG to recalculate the refund.

The OIG’s second recommendation is that Jefferson enhance oversight of charges to the Federal awards to ensure compliance with Federal regulations. Jefferson pays careful attention to providing proper stewardship and financial management over Federal funds. Jefferson has updated and implemented practices to enhance its processes and oversight to ensure that costs charged to HHS awards are allowable and that its departments and principal investigators fully comply with Federal regulations as described in Section II below.

### **SECTION I**

#### **OIG RECOMMENDATION #1**

#### **JEFFERSON SHOULD REFUND \$124,009 TO THE FEDERAL GOVERNMENT**

The OIG reviewed 100 salary transactions, finding 96 were allowable and 4 were either unallowable or partially unallowable. The auditors also reviewed a sample of 104 non-salary transactions, finding 84 were allowable and 20 were either unallowable or partially unallowable. See Draft OIG Report at page 3.

Jefferson submits “Schedule A”, which is attached, identifying the Salary and Non-Salary transactions found to be unallowable or partially unallowable by the OIG. Schedule A identifies: (1) the sample number, (2) the sample dollar amount, (3) the dollar amount questioned, (4) the total related fringe benefits questioned, (5) the total related F&A costs questioned, (6) the total questioned, (7) the sample dollars transferred to non-Federal funding sources, (8) date of transfer to non-Federal funding source, (9) the reason the OIG questioned the transaction, (10) Jefferson’s brief response, and (11) the related exhibit for documentation to support Jefferson’s response. References throughout this document refer to Schedule A, identifying the sample number and related exhibits, e.g. “Sample 29/Exhibit 1”.

Redacted at Jefferson's request.



## SECTION II

### **OIG RECOMMENDATION #2 JEFFERSON SHOULD ENHANCE OVERSIGHT OF CHARGES TO FEDERAL AWARDS TO ENSURE COMPLIANCE WITH FEDERAL REGULATIONS**

Jefferson consistently strives to provide the necessary oversight primarily through its Office of Research Administration (ORA) to ensure that costs charged to HHS awards are allowable and that its departments and principal investigators fully comply with Federal regulations. Jefferson continuously evaluates its policies and practices to enhance regulatory compliance.

Jefferson has a policy, which it provided to the OIG, directly addressing the issue of charging administrative-type expenses to Federal awards. This policy titled "Costing Guidelines for Sponsored Projects" provides specific guidance to principal investigators, administrators and other personnel who may be involved in decisions related to charging administrative expenses directly to Federal awards. This policy is a highly detailed document, which provides background on the Circular A-21 and Federal cost accounting standards. This policy has been published since 1997 and has been revised as recently as 2012. The policy is readily available to principal investigators and all other Jefferson staff. Jefferson has educated its research community on the existence of its policies and the Federal standards.

Jefferson's ORA continues to review all salary transactions since such expenditures represent the majority of our Federal spending. Additional oversight has been added on some non-salary transactions under \$5,000, which previously were solely under principal investigator and department purview. For example, Jefferson's ORA approves all travel and personal reimbursement transactions regardless of the dollar amount.

In addition to following its policies and practices, Jefferson oversees compliance through ORA's periodic monitoring and quality assurance reviews of transactions charged to HHS awards. As a complement to ORA's oversight responsibilities, the Internal Audit Plan includes periodic reviews of moderate to high risk Federal grant

management compliance issues. Further, Jefferson's ORA has the authority to remove an unallowable cost, as defined by our costing policy, a deficit, or process any transaction required to close an award or match final report. ORA informs principal investigators and departments when such transactions are made.

Through this enhanced oversight, Jefferson believes that costs charged to HHS awards are allowable and that its departments and principal investigators fully comply with Federal regulations through the enforcement of appropriate policies and procedures, monitoring and oversight.

THOMAS JEFFERSON UNIVERSITY  
SCHEDULE A

UNALLOWABLE SALARY COSTS PER OIG REPORT A-03-11-03300 dated 11/29/2012								
Sample Number	Sample Dollar Amount	Dollar Amount Questioned	Total Related Fringe Benefits Questioned	Total Related F&A Costs Questioned	Total Questioned	Sample Dollars Transferred to Non-federal funding source	Date of Transfer to Non-federal funding source	Reason Questioned
29	2,538	145				NA	NA	Insufficient labor distribution documentation
36	3,129	3,129				NA	NA	Insufficient labor distribution documentation
74	13,732	687				NA	NA	Insufficient effort supporting documentation
88	22,060	10,781				NA	NA	Insufficient labor distribution documentation
<b>Salary Costs</b>	<b>41,359</b>	<b>14,742</b>	<b>3,675</b>	<b>30,020</b>	<b>48,437</b>			
UNALLOWABLE NON-SALARY COSTS PER OIG REPORT A-03-11-03300 dated 11/29/2012								
Sample Number	Sample Dollar Amount	Dollar Amount Questioned	Total Related Fringe Benefits Questioned	Total Related F&A Costs Questioned	Total Questioned	Sample Dollars Transferred to Non-federal funding source	Date of Transfer to Non-federal funding source	Reason Questioned
2	10	10				10	3/25/2011	Unallowable as a direct charge
3	11	11				11	6/22/2011	Unallowable as a direct charge
7	14	14				14	3/31/2011	Unallowable as a direct charge
11	22	22				22	3/31/2011	Unallowable as a direct charge
13	26	26				26	3/31/2011	Unallowable as a direct charge
14	28	28				28	3/29/2011	Unallowable as a direct charge
15	29	29				29	3/28/2011	Unallowable as a direct charge
25	60	26				26	7/28/2011	Unallowable as a direct charge
26	68	68				NA		Unallowable charge to Federal grant
27	69	69				NA		Unallowable as a direct charge
31	107	7				7	8/18/2011	Unallowable charge to Federal grant
35	119	119				119	4/28/2011	Unallowable as a direct charge
43	170	170				NA		Unallowable for grant charged
48	245	245				NA		Unallowable for grant charged
49	245	245				245	7/26/2011	Unallowable as a direct charge
63	379	169				124	5/5/2011	Unallowable as a direct charge
69	443	443				443	3/24/2011	Unallowable for grant charged
73	585	585				585	3/25/2011	Unallowable as a direct charge
78	713	713				713	7/26/2011	Unallowable as a direct charge
81	915	915				915	7/28/2011	Unallowable as a direct charge
<b>Non-Salary Costs</b>	<b>4,257</b>	<b>3,913</b>		<b>2,004</b>	<b>5,917</b>	<b>3,316</b>		
<b>Non-Salary Costs Projected</b>		<b>6,121</b>		<b>32,763</b>		<b>(3,316)</b>		

Total Unallowable 80,867 3,675 42,783 127,325 (3,316)

Total Unallowable Net of Transfers Completed 124,009

Thomas Jefferson University	
TJU Response	Exhibit
Questioned amount is allowable. Additional supporting documentation for the reconciling transaction(s) submitted.	1
Questioned amount is allowable. Additional supporting documentation for the reconciling transaction(s) submitted.	2
Questioned amount is allowable. Effort reports are certified for periods that differ from the Federal fiscal year. Additional analysis of certified effort and labor charged for the effort reporting periods are submitted.	3
Questioned amount is allowable. Additional supporting documentation for the reconciling transaction(s) submitted.	4
Thomas Jefferson University	
TJU Response	Exhibit
We concur with the OIG.	
Questioned amount is allowable as direct charge.	5
We concur with the OIG.	
Questioned amount is allowable as direct charge.	6
Questioned amount is allowable as direct charge.	7
We concur with the OIG.	
Questioned amount is allowable as direct charge.	8
We concur with the OIG.	
Questioned amount is allowable as direct charge.	9
We concur with the OIG.	
Questioned amount is allowable as a direct charge.	10
Questioned amount is allowable as a direct charge.	11
We concur with the OIG.	