

Report in Brief

Date: May 2018

Report No. A-04-14-00095

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Review

Our prior survey work at the University of Alabama at Birmingham (UAB) indicated that UAB may have overstated chilled water costs in its fiscal year (FY) 2010 Facilities and Administrative (F&A) cost proposal and, therefore, overstated its negotiated F&A rates for FYs 2012 through 2015. UAB also ranked within the top 10 percent in Federal research funding for the same 4-year period and used service centers to allocate costs.

Our objective was to determine whether UAB included chilled water costs in its FY 2010 F&A cost proposal in accordance with Federal requirements.

How OIG Did This Review

We reviewed \$16.5 million in chilled water costs included in \$103.7 million of Operations and Maintenance costs reported in the FY 2010 cost proposal. We identified unallowable chilled water costs and determined their effect on UAB's negotiated F&A rates for FYs 2012 through 2015. We calculated potential overpayments by multiplying modified total direct costs on Federal awards by the 1-percent overstatement we identified. We did not review UAB's negotiated F&A rates, based on its 2006 cost proposal, for FYs 2010 and 2011.

The University of Alabama at Birmingham Overstated Chilled Water Costs in Its Facilities and Administrative Cost Proposal

What OIG Found

In its FY 2010 F&A cost proposal, UAB included \$8.6 million in chilled water costs that were not in accordance with Federal requirements that costs must be reduced by applicable credits. Specifically, UAB officials did not reduce chilled water costs included in the cost proposal by \$8.6 million in chilled water revenues that it received from various users.

Separate from its comments on our draft report, UAB officials provided us with information acknowledging that UAB did not net \$8.6 million in chilled water revenues that it received from various users against costs included in its FY 2010 F&A cost proposal. As a result, UAB's negotiated F&A rate was inflated by 1 percent per year for FYs 2012 through 2015, and it potentially received as much as \$5.9 million in overpayments from the Federal Government.

What OIG Recommends and University of Alabama at Birmingham Comments

We recommend that UAB work with the Department of Health and Human Services' Cost Allocation Services to determine the portion of the \$5.9 million that was unallowable under Federal requirements, refund the unallowable portion (including any interest) to the Federal Government, and ensure that appropriate officials review future proposals for compliance with Federal requirements prior to submission.

UAB acknowledged that it overstated chilled water costs in its proposal and commented that it had taken steps to ensure that appropriate officials review future proposals for compliance prior to submission. However, UAB contended that it included \$16.5 million in chilled water costs in the proposal, that it overstated chilled water costs by \$3.6 million, and that its costing model identified overcharges made to Federal awards of \$1 million.

After reviewing UAB's comments and additional information, we agreed that UAB included \$16.5 million in chilled water costs, composed of \$7.9 million incurred costs to produce chilled water and \$8.6 million in chilled water costs billed to user accounts, in its proposal. After analysis of the additional information, we maintain that UAB overstated chilled water costs by \$8.6 million in costs not reduced by revenues (applicable credits) and that it received as much as \$5.9 million in overpayments.