



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF AUDIT SERVICES  
233 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601

REGION V  
OFFICE OF  
INSPECTOR GENERAL

Report Number: A-05-05-00047

June 16, 2006

William J. Hogan Jr.  
Comptroller  
University of Chicago  
1225 East 60<sup>th</sup> Street  
Chicago, Illinois 60637

Dear Mr. Hogan,

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Audit of Cost Transfers Funded Under NIH Grants at the University of Chicago" for the period July 1, 2004 through June 30, 2005. A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG reports issued to the department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to report number A-05-05-00047 in all correspondence relating to this report.

Sincerely,

Paul Swanson  
Regional Inspector General  
for Audit Services

Enclosures

**Direct Reply to HHS Action Official:**

Chief, Special Reviews Branch  
Division of Financial Advisory Services  
Office of Acquisition Management and Policy  
National Institutes of Health  
6100 Executive Blvd. Room 6B05  
Rockville, Maryland 20892

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF COST TRANSFERS  
FUNDED UNDER NIH GRANTS  
AT THE UNIVERSITY OF CHICAGO**



Daniel R. Levinson  
Inspector General

June 2006  
A-05-05-00047

# *Office of Inspector General*

<http://oig.hhs.gov>

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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:

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The Office of Audit Services (OAS) provides all 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.

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# *Notices*

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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

## **OAS FINDINGS AND OPINIONS**

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



## **EXECUTIVE SUMMARY**

### **BACKGROUND**

The University of Chicago (the University) is a private, nondenominational institution of higher learning and research located in Chicago, Illinois. The school consistently ranks among the leading recipients of research funding from the National Institutes of Health (NIH). In accounting for the costs of its research activities, cost transfers from one account to another are occasionally necessary to correct bookkeeping or clerical errors in the originally charged account.

A cost transfer is an after-the-fact reallocation of costs, either labor or non-labor, to an award/grant. Cost transfers move expenses from one account to another. Federal requirements concerning the management of awards made to institutions such as the University limit the circumstances under which cost transfers are allowed.

Federal requirements for cost transfers require that they are timely, supported, reasonable, allocable, allowable, and that grant accounts must have adequate internal controls so they can be monitored. In addition, specific University requirements must also be followed.

Transfers of costs from one funding source to another may be proper for closely related work supported by more than one funding source. However, frequent, tardy, and inadequately supported transfers, particularly if they involve projects with significant cost overruns or unexpended fund balances, raise serious questions about the appropriateness of the transfers and the overall reliability of the university's accounting system and internal controls.

### **OBJECTIVES**

Our objectives were to determine whether the University (i) developed and implemented adequate written procedures and controls relating to cost transfers and (ii) justified and supported cost transfers in accordance with Federal regulations and the institution's policies and procedures.

### **SUMMARY OF FINDINGS**

Although the University developed and implemented adequate written policies and procedures and controls relating to cost transfers and generally justified and supported cost transfers to NIH grants, our analysis of selected transactions found that staff did not always follow those procedures and cost transfers were not always documented and authorized as required. Federal and University policies and procedures allow cost transfers to funded projects when they are reasonable, allowable, allocable, adequately supported, and timely and require adequate internal controls for monitoring grant accounts. We found that one transfer lacked required documentation to explain how the error occurred and four late transfers were made without completing or properly authorizing the required form for University oversight and approval. Ultimately, supplemental explanation and documentation supported the allowability and allocability of these cost transfers.

Although the University caught and corrected the undocumented and unauthorized errors, the procedural lapses indicate a need to reemphasize its policies and procedures for cost transfers.

## **RECOMMENDATION**

We recommend that the University reemphasize cost transfer policies and procedures with the Comptroller's and departmental staff.

In a written response dated June 7, 2006, University officials agreed with the recommendation. The response is included in its entirety as an Appendix to the report.

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## **INTRODUCTION**

### **BACKGROUND**

The University of Chicago (the University) is a private, nondenominational institution of higher learning and research located in Chicago, Illinois. The school consistently ranks among the leading recipients of research funding from the National Institutes of Health (NIH). In accounting for the costs of its research activities, cost transfers from one account to another are occasionally necessary to correct bookkeeping or clerical errors in the originally charged account.

A cost transfer is an after-the-fact reallocation of costs, either labor or non-labor, to a federally funded award/grant. Cost transfers move expenses from one account to another. They may be needed to correct salary distribution estimates, to correct clerical or bookkeeping errors, or to transfer pre-award costs. Federal requirements concerning the management of awards made to institutions such as the University limit the circumstances under which cost transfers are allowed.

Federal requirements for cost transfers require that they are timely, supported, reasonable, allocable, allowable, and that grant accounts must have adequate internal controls so they can be monitored. In addition, specific University requirements must also be followed.

Transfers of costs from one funding source to another may be proper for closely related work supported by more than one funding source. However, frequent, tardy, and inadequately supported transfers, particularly if they involve projects with significant cost overruns or unexpended fund balances, raise serious questions about the appropriateness of the transfers and the overall reliability of the university's accounting system and internal controls.

### **OBJECTIVES, SCOPE, AND METHODOLOGY**

#### **Objectives**

The objectives of our review were to determine whether the University (i) developed and implemented adequate written procedures and controls relating to cost transfers and (ii) justified and supported cost transfers in accordance with Federal regulations and the institution's policies and procedures.

#### **Scope**

We did not review the overall internal control structure of the University's accounting system. Our internal control review was limited to obtaining an understanding of the University's procedures for transferring costs.

We reviewed cost transfers to NIH grants at the University during the period July 1, 2004, through June 30, 2005. Fieldwork was performed during the period June 2005 through October 2005 at the University Comptroller's office.

## **Methodology**

To accomplish our audit objective, we interviewed University officials and obtained information about the school's policies and procedures for cost transfers.

Our review excluded Federal cost transfers under \$100, credit transfers, fringe benefits, stipend aid, tuition aid, student aid, fee aid, miscellaneous non-aid, and indirect costs. From the remaining 8,661 cost transfers, we randomly selected a probe sample of 30 items for review.

We reviewed the cost transfer supporting documentation provided by the University as part of our sample. We reviewed background information on the cost transfers, the Accounting System Reports, Report of Transactions, Monthly Payroll Expense Detail Report, and the documentation regarding persons authorized to initiate and approve cost transfers. Based on our review of the probe sample items, which found only procedural issues, we decided not to proceed with the full sample.

We conducted our audit in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

Although the University developed and implemented adequate written policies and procedures and controls relating to cost transfers and generally justified and supported cost transfers to NIH grants, our analysis of selected transactions found that one transfer lacked required documentation to explain how the error occurred and four late transfers were made without completing or properly authorizing the required form for University oversight and approval. Ultimately, supplemental explanation and documentation supported the allowability and allocability of these cost transfers.

### **Federal and University Requirements**

The Office of Management and Budget (OMB) Circular No. A-21, the NIH Grants Policy Statement, and University policies and procedures allow cost transfers to funded projects when they are reasonable, allowable, allocable, adequately supported, and timely and require adequate internal controls for monitoring grant accounts. OMB Circular No. A-21, section C.4 (May 2004), states:

A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if (1) it is incurred solely to advance the work under the sponsored agreement; (2) it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods . . . .

. . . Any costs allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted to other sponsored agreements in order to meet

deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.

The NIH Grants Policy Statement (December 2003, Part II, Subpart A: General, Cost Considerations) discusses timeliness and adequate supporting documentation by stating:

Cost transfers . . . should be accomplished within 90 days of when the error was discovered. The transfers must be supported by documentation that fully explains how the error occurred and a certification of the correctness of the new charge by a responsible organizational official of the grantee, consortium participant, or contractor. An explanation merely stating that the transfer was made “to correct error” or “to transfer to correct project” is not sufficient. Transfers of costs from one project to another or from one competitive segment to the next solely to cover cost overruns are not allowable.

In regard to monitoring grant accounting, the NIH Grants Policy Statement (December 2003, Part II, Subpart A: General, Administrative Requirements, Management Systems and Procedures, Financial Management System Standards) states:

Grantees must have in place accounting and internal control systems that provide for appropriate monitoring of grant accounts to ensure that obligations and expenditures are reasonable, allocable, and allowable. In addition, the systems must be able to identify large unobligated balances, accelerated expenditures, inappropriate cost transfers, and other inappropriate obligation and expenditure of funds. Grantees must notify NIH when problems are identified.

To address the timely transferring of costs between research activity and expected University oversight, the University implemented policies and procedures that require cost transfers be made on a timely basis and that the reasons for late transfers must be documented on a “Request for Late Cost Transfer Form”. Policy requires the appropriate dean’s office and the Office of the Comptroller to review and approve each late transfer on a case-by-case basis.

### **Procedures Not Always Followed - Undocumented and Unauthorized Cost Transfers**

While the University had extensive cost transfer policies and procedures, which closely follow the NIH Grants Policy Statement and OMB Circular No. A-21 requirements, staff did not always follow those procedures and cost transfers were not always documented and authorized as required. Of the 30 cost transfers we reviewed, we found one cost transfer without adequate supporting documentation to explain the need for the transfer, three late cost transfers without the University required late cost transfer form, and one late cost transfer with a required form that was not approved by the comptroller's office. Federal and university policies require documentation that fully explains how the error occurred. Since a full explanation was readily available from the University staff, we attribute the missing explanation to an inadvertent oversight. Regarding inadequate documentation and authorization for the late cost transfers, the University noted the three late cost transfer forms and the non-approved cost transfer form, while pulling our requested data, and corrected the errors. Sufficient justification and documentation were ultimately available to support the allowability and allocability of the cost transfers to NIH

grants. Considering the subsequently provided documentation, all of the cost transfers reviewed were accepted.

Although the University caught and corrected the undocumented and unauthorized errors, the procedural lapses indicate a need to reemphasize its policies and procedures for cost transfers.

### **RECOMMENDATION**

We recommend that the University reemphasize cost transfer policies and procedures with the Comptroller's and departmental staff.

### **UNIVERSITY'S RESPONSE TO DRAFT REPORT**

The University agreed with our recommendation. The response is included in its entirety as an Appendix to the report.

# APPENDIX

THE UNIVERSITY OF CHICAGO  
OFFICE OF THE COMPTROLLER  
1225 EAST 60TH STREET  
CHICAGO - ILLINOIS 60637-2801

June 7, 2006

Mr. Paul Swanson  
Regional Inspector General  
For Audit Services  
Department of Health and Human Services  
Office of Audit Services  
233 North Michigan Avenue  
Chicago, Illinois 60601

Re: Report Number A-05-05-00047

Dear Mr. Swanson:

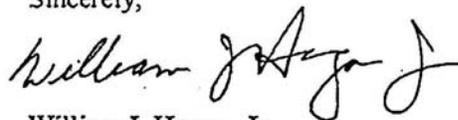
We have reviewed the draft audit report entitled, "Audit of Cost Transfers Funded Under NIH Grants at the University of Chicago" for the period July 1, 2004 through June 30, 2005 and are in agreement with the Report's findings and recommendations.

The Report recommended that the University reemphasize its cost transfer policies and procedures. The University is committed to meeting compliance requirements on all federal awards and has offered training programs for sponsored programs administrators throughout the University for some years now. During the upcoming fiscal year, we plan to begin a process to enhance training programs that address compliance requirements of federal awards and will reemphasize existing University policies and procedures related to the principles of direct cost allocation and cost transfers on federal awards.

The University plans to enhance training programs by using Web based training technology to increase faculty and staff access to training and allow faculty and staff to receive individual feedback from comprehensive tests. We will continue to provide group training in understanding the fundamentals and special topics in sponsored programs administration.

We appreciate and extend our gratitude to the Office of the Inspector General for the professionalism exhibited by the auditors during the conduct of this audit.

Sincerely,



William J. Hogan, Jr.  
Comptroller

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