THE UNIVERSITY OF MICHIGAN
CLAIMED ALLOWABLE EQUIPMENT
COSTS UNDER NATIONAL
INSTITUTES OF HEALTH GRANTS

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

Sheri L. Fulcher
Regional Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

The University of Michigan claimed $5,175,396 in allowable equipment costs under the terms of its NIH grants and complied with all applicable Federal regulations.

WHY WE DID THIS REVIEW

During a prior audit of equipment costs, we found that a university claimed Federal reimbursement for equipment costs exceeding $25,000 that were significantly rebudgeted and did not receive prior approval from the National Institutes of Health (NIH). As a result of that audit, University of Wisconsin–Madison Claimed Allowable Costs Under Recovery Act Grants (A-05-11-00102, Issued September 27, 2012), we conducted an audit of equipment purchases exceeding $25,000.

OBJECTIVE

The objective of this review was to determine whether equipment purchases exceeding $25,000 funded through NIH grants were allowable under the terms and conditions of the grants and applicable Federal regulations.

BACKGROUND

The NIH is the steward of medical and behavioral research for the nation. Its mission is science in pursuit of fundamental knowledge about the nature and behavior of living systems and the application of that knowledge to extend healthy life and reduce the burdens of illness and disability. Research supported through the issuance of grants and cooperative agreements enable NIH to fulfill its mission to make medical discoveries that improve health and save lives.

NIH grants and cooperative agreements are awarded as discretionary grants. NIH has the authority to determine the recipient of the grant and/or cooperative agreement and the amount awarded. NIH programs are legislatively authorized by Congress, which also defines the purpose and policy, authorization of appropriations, allotment of funds, limitation on assistance, and other things, for the programs. Furthermore, each Institute and Center establishes specific goals for the unit, grant programs, and activities.

The University of Michigan (the grantee), founded in 1817, is a comprehensive teaching and research university. The grantee made 43 equipment purchases, exceeding $25,000, with NIH funds in the amount of $5,175,396. The purchase period was January 1, 2011, through December 31, 2011.

HOW WE CONDUCTED THIS REVIEW

We reviewed all 43 equipment purchases totaling $5,175,396 that were purchased with NIH grant funds during the period January 1, 2011, through December 31, 2011. We did not perform an overall assessment of the grantee’s internal control structure. Rather, we limited our
evaluation of the grantee’s procurement process to obtaining an understanding of internal control as it relates to the specific objective and scope of the audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology, and Appendix B contains details on the Federal requirements related to NIH grants.

We conducted fieldwork at the grantee’s financial operations office in Ann Arbor, Michigan in September 2012.

RESULTS OF REVIEW

The $5,175,396 in costs covered by our review were allowable under the terms of the grants and applicable Federal regulations. Accordingly, this report contains no recommendations.
APPENDIX A: SCOPE AND METHODOLOGY

SCOPE

We reviewed all 43 equipment purchases totaling $5,175,396 that were purchased with NIH grant funds during the period January 1, 2011, through December 31, 2011. We did not perform an overall assessment of the grantee’s internal control structure. Rather, we limited our evaluation of the grantee’s procurement process to obtaining an understanding of internal control as it relates to the specific objective and scope of the audit.

We conducted fieldwork at the grantee’s financial operations office in Ann Arbor, Michigan in September 2012.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and program guidance;
- requested a listing of equipment purchases for all NIH grants for the audit period;
- summarized equipment purchases that exceeded $25,000;
- interviewed grantee officials;
- determined if the purchase of any particular unit of equipment was split across different grants;
- determined whether duplicate purchases of equipment were improperly charged to the same grant or different grants;
- reviewed the timing of equipment purchases and any unusually large purchases at the end of the grant period;
- held discussions with the grantee’s staff to determine whether equipment costs were reasonable and whether anyone certified that the equipment was not available prior to the purchase;
- determined whether competitive bids were obtained when necessary;
- determined whether equipment was placed in the inventory records and noted as being purchased with Federal funds; and
- determined if prior approval was sought from NIH for equipment purchases in excess of $25,000 if the equipment was not included in the approved grant.
We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
APPENDIX B: FEDERAL REQUIREMENTS FOR NATIONAL INSTITUTES OF HEALTH GRANTEEES

FEDERAL REGULATIONS

The allowability of costs incurred by institutions of higher education are determined in accordance with the cost principles contained in 2 CFR pt. 220 (Office of Management and Budget (OMB) Circular A-21), Cost Principles for Educational Institutions, as required by 45 CFR § 74.27.

NIH POLICY

NIH provides additional guidance through the National Institutes of Health Grants Policy Statement (NIH Grants Policy Statement). The Grants Policy Statement provides NIH grantees, in a single document, the policy requirements that serve as the terms and conditions of NIH grant awards. The Grants Policy Statement provides general information, application information, and specifies the terms and conditions that apply to particular types of grants, grantees, and activities that differ from, supplement, or elaborate on the standard terms and conditions.