THE UNIVERSITY OF COLORADO DENVER DID NOT ALWAYS CLAIM 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.

Gloria L. Jarmon  
Deputy Inspector General

June 2013  
A-07-11-06013
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

University of Colorado Denver

The University of Colorado Denver (the University) is a public institution located on two campuses in the Denver, Colorado, metropolitan area. For the period October 1, 2009, through September 30, 2010, the University claimed reimbursement for approximately $151.2 million in costs incurred on 971 grants, contracts, and other agreements (awards) with components of the Department of Health and Human Services (HHS). In addition to its regular funding through grants and contracts, the University was awarded 276 grants totaling $71.5 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, the University agreed to comply with regulations governing the use of Federal funds and to ensure that costs charged to those awards are allowable under the cost principles established in 2 CFR part 220 (Office of Management and Budget Circular A-21). 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.

Award Administration

The University’s Office of Grants and Contracts accepts and administers awards on behalf of the University. The Office of Grants and Contracts is responsible for reviewing transactions proposed by colleges, departments, and principal investigators to ensure that those transactions comply with Federal regulations.

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 the University charged to HHS awards were allowable.

SUMMARY OF FINDINGS

Not all of the selected costs that the University charged to HHS awards were allowable. In our sample of 100 salary transactions, 82 were allowable, but 18 were not. In our sample of 100 nonsalary transactions, 91 were allowable, but 9 were not. Based on our sample results, we estimated that, of the $42,466,929 in costs covered by our review, the University charged at least $1,234,883 in unallowable salary and nonsalary costs to HHS awards during FY 2010.
In addition, the University charged unallowable direct and facilities and administrative costs totaling $184,641 for two awards. The costs were unallowable because the University relinquished the awards to another institution and charged costs to the awards after their relinquishment.

The University’s oversight did not ensure that all costs claimed were allowable. Although its finance and accounting procedures often incorporated text from the applicable cost principles, the University largely left it to the discretion of its individual colleges, departments, and principal investigators to interpret the University’s policies and procedures for charging costs to Federal awards correctly and to comply with Federal regulations and guidance.

RECOMMENDATIONS

We recommend that the University:

- refund $1,419,524 to the Federal Government and
- exercise more stringent oversight of charges to Federal awards to ensure compliance with Federal regulations.

UNIVERSITY COMMENTS

In written comments on our draft report, the University disagreed with some of our findings. Specifically, the University stated that:

- 13 of the 18 salary transactions that we questioned were allowable and
- 1 of the 9 nonsalary transactions that we questioned was allowable.

Regarding our finding on the two awards that were relinquished to another institution, the University said that it had identified this error and notified the National Institutes of Health (NIH) before our fieldwork, and it asked that we remove this finding from our report.

The University also took exception to our conclusions about its internal controls and the issue that we identified as “Other Matter.”

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the University’s comments and the additional information that it gave to us, we maintain that our findings and recommendations are valid. None of the additional information that the University gave to us constituted sufficient documentation for us to conclude that any of the costs in question were allowable. Moreover, NIH was not aware at the start of our fieldwork that the University had received reimbursement for expenses associated with the two relinquished awards after the relinquishment dates. Finally, we maintain that our assessment of the internal control deficiencies was consistent with both the scope of our audit and the nature of our findings.
TABLE OF CONTENTS

INTRODUCTION.................................................................................................................... 1

BACKGROUND ........................................................................................................... 1
  University of Colorado Denver ................................................................. 1
  Cost Principles ................................................................................. 1
  Award Administration ................................................................. 1

OBJECTIVE, SCOPE, AND METHODOLOGY ......................................................... 1
  Objective .................................................................................... 1
  Scope ......................................................................................... 1
  Methodology .............................................................................. 2

FINDINGS AND RECOMMENDATIONS ................................................................. 3

UNALLOWABLE COSTS ........................................................................................... 4
  Salary Costs ....................................................................................... 4
  Nonsalary Costs .................................................................................. 6
  Costs Charged to Two Awards After Relinquishment Dates ......... 7

INADEQUATE CONTROLS ....................................................................................... 8

EFFECT OF UNALLOWABLE COSTS ...................................................................... 8

RECOMMENDATIONS ............................................................................................... 9

UNIVERSITY COMMENTS AND
  OFFICE OF INSPECTOR GENERAL RESPONSE ........................................ 9
  Salary Costs ....................................................................................... 9
  Nonsalary Costs .................................................................................. 10
  Reimbursement of Two Relinquished Awards ...................................... 11
  Internal Controls ............................................................................. 11

OTHER MATTER........................................................................................................... 12

UNIVERSITY COMMENTS ...................................................................................... 12

OFFICE OF INSPECTOR GENERAL RESPONSE ............................................. 12

APPENDIXES

A: SAMPLE DESIGN AND METHODOLOGY—SALARY TRANSACTIONS
B: SAMPLE DESIGN AND METHODOLOGY—NON-SALARY TRANSACTIONS

C: SAMPLE RESULTS AND ESTIMATES—SALARY COSTS

D: SAMPLE RESULTS AND ESTIMATES—NON-SALARY COSTS

E: UNIVERSITY COMMENTS
INTRODUCTION

BACKGROUND

University of Colorado Denver

The University of Colorado Denver (the University) is a public institution located on two campuses in the Denver, Colorado, metropolitan area. For the period October 1, 2009, through September 30, 2010, the University claimed reimbursement for approximately $151.2 million in costs incurred on 971 grants, contracts, and other agreements (awards) with components of the Department of Health and Human Services (HHS). In addition to its regular funding through grants and contracts, the University was awarded 276 grants totaling $71.5 million in funding provided by the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (February 17, 2009).

Cost Principles

The 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 the applicable cost principles (45 CFR § 74.27(a)). The cost principles for educational institutions are established in 2 CFR part 220 (Office of Management and Budget (OMB) Circular A-21). 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.

Award Administration

The University’s Office of Grants and Contracts accepts and administers awards on behalf of the University. The Office of Grants and Contracts is responsible for reviewing transactions proposed by colleges, departments, and principal investigators to ensure that those transactions comply with Federal regulations.

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 the University charged to HHS awards were allowable.

Scope

Our audit covered $10,458,409 in salary transactions and $32,008,520 in nonsalary transactions claimed for reimbursement for the period October 1, 2009, through September 30, 2010 (fiscal
year (FY) 2010). We limited the audit to grants, contracts, and other agreements between the University and the National Institutes of Health (NIH), the Centers for Disease Control and Prevention, and the Health Resources and Services Administration. We did not evaluate transactions charged to the University’s agreements with other Federal departments and agencies.

We limited our assessment of internal controls to the University’s policies and procedures for charging costs to Federal awards. We conducted our fieldwork at the University’s offices in Aurora, Colorado.

**Methodology**

To accomplish our objective, we:

- reviewed applicable Federal regulations and guidelines;
- reviewed the University’s policies and procedures for charging costs to Federal awards;
- reviewed the University’s Cost Accounting Standards Board Disclosure Statement (DS-2);¹
- obtained from the University a list of transactions for all of the costs charged directly to HHS awards;
- reviewed the University’s account codes and identified accounts that we considered administrative in nature;²
- removed offsetting transactions,³ benefits transactions,⁴ and low-dollar transactions (less than $5) to arrive at our audit universe of $10.5 million in salary transactions and $32.0 million in nonsalary transactions;
- selected and determined the allowability of statistical samples of 100 salary transactions (Appendix A) and 100 nonsalary transactions (Appendix B);

---

¹ Educational institutions that receive aggregate sponsored agreements totaling $25 million or more are required to disclose their cost accounting practices by filing a disclosure statement (DS-2). The University has submitted a DS-2 to HHS, Division of Cost Allocation.

² These accounts were associated with $103.6 million in salary transactions and $63.2 million in nonsalary transactions.

³ Offsetting transactions are expenditures charged to a grant that were subsequently adjusted by transferring the costs to another funding source(s).

⁴ Benefits transactions are expenditures associated with salary costs, such as medical and dental insurance and costs of 401(k) employee retirement plans.
• computed the facilities and administrative (F&A) costs related to these unallowable transactions;

• estimated the unallowable amounts that were charged to HHS awards (Appendixes C and D); and

• discussed our findings with University officials on June 10, 2012.

We evaluated the sample transactions based on documentation that the University’s Office of Grants and Contracts provided. For transactions not initially supported by the documentation provided, we asked the University’s Office of Grants and Contracts and the principal investigators on the related awards to submit additional information.

We discussed our tentative findings and conclusions with NIH representatives during our audit. NIH provided additional information regarding the nature of the awards to which the sampled transactions were charged, and we considered that information in reaching our conclusions on the allowability of the costs.5

We assessed the reliability of transactions data by performing electronic testing for obvious errors in accuracy and completeness, reviewing related documentation, and interviewing agency officials knowledgeable about the data. In addition, we traced a statistically random sample of data to source documents (see Appendixes A and B for details). We determined that the data were sufficiently reliable for the purposes of this report.

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.

**FINDINGS AND RECOMMENDATIONS**

Not all of the selected costs that the University charged to HHS awards were allowable. In our sample of 100 salary transactions, 82 were allowable, but 18 were not. In our sample of 100 nonsalary transactions, 91 were allowable, but 9 were not.6 Based on our sample results, we estimated that, of the $42,466,929 in costs covered by our review, the University charged at least $1,234,883 in unallowable salary and nonsalary costs to HHS awards during FY 2010. (See Appendixes C and D.)

---

5 We discussed our findings primarily with NIH representatives during the audit because the majority of our sample transactions related to NIH awards.

6 For some of the transactions, we disallowed only a portion of the transaction.
In addition, the University charged unallowable direct and F&A costs totaling $184,641 for two awards. The costs were unallowable because the University relinquished the awards to another institution and charged costs to the awards after their relinquishment.

The University’s oversight did not ensure that all costs claimed were allowable. Although its finance and accounting procedures often incorporated text from the applicable cost principles, the University largely left it to the discretion of its individual colleges, departments, and principal investigators to interpret the University’s policies and procedures for charging costs to Federal awards correctly and to comply with Federal regulations and guidance.

UNALLOWABLE COSTS

Salary Costs

Of the 100 transactions in our sample of salary costs, 18 transactions totaling $7,619 were not allowable. Specifically:

- 15 transactions totaling $7,290 were not supported with sufficient documentation and
- 3 transactions totaling $329 should have been treated as F&A costs and not charged as salary costs.

Unsupported Costs

Pursuant to 2 CFR part 220, Appendix A, § J.10.b(2)(b), a grantee’s payroll distribution system must “reasonably reflect the activity for which an employee is compensated by the institution” and must provide for “after-the-fact confirmation or determination so that costs distributed represent actual costs” unless the grantee and awarding agency reach an alternative agreement. This section also states that salaries and wages “may be confirmed by responsible persons with suitable means of verification that the work was performed.”

An acceptable method for payroll distribution requires after-the-fact personnel activity reports to support the distribution of salaries in the payroll system. These reports are designed to capture the work performed by the employee to justify the distribution of salary and wages to sponsored projects. These reports are to be signed either by the employee or principal investigator “using suitable means of verification that the work was performed” (2 CFR part 220, Appendix A, § J.10.c(2)(c)).

Pursuant to the Cost Accounting Standards Board Disclosure Statement, the University requires hourly employees who are not covered by the University’s Personal Effort Reporting System process to attest to the appropriateness of wages charged to a sponsored project reflecting the actual effort expended. The attestation is done on a prescribed timesheet (that is, the personnel activity report) on which the employee certifies that (1) the project(s) identified on the timesheet are appropriate to pay the hours and (2) the percentage of time attributed to each project reflects the actual effort expended on that project.
Fourteen transactions totaling $5,207 were not supported with sufficient documentation to allow us to determine whether hourly payroll costs were allocated based on actual costs rather than on budget estimates. The employees prepared personnel activity reports that included the total hours worked, but these reports did not identify the projects or activities on which the employees worked. For example, 100 percent of one hourly employee’s effort was charged to an award. The employee’s personnel activity report identified the hours worked but did not identify the project for which the hours were spent. Because the personnel activity report did not reflect the project or activity for which the employee expended effort, it did not provide adequate documentation to support the determination to distribute salaries and wages for this employee. Because the personnel activity reports did not identify the projects or activities worked on, we could not determine whether costs were allocated based on actual costs or budget estimates.

In addition, for one transaction totaling $2,083, the University could not provide a personnel activity report documenting the time charged to an award. A student was hired as a research assistant on July 1, 2009, but the position was not officially approved until a year later. During this period, the research assistant’s salary was erroneously charged to the award as a stipend. The payroll system did not generate effort reports necessary to certify the employee’s time and effort until after the position was approved. Therefore, for the pay period of the reviewed transaction, the University could not provide a personnel activity report pursuant to 2 CFR part 220, Appendix A.

Facilities and Administrative Costs Charged as Direct Costs

Federal regulations (2 CFR part 220, Appendix A, § F.6.b) include specific guidance regarding the treatment of charges for administrative and clerical expenses incurred within various departments of a college or university, and state: “The salaries of administrative and clerical staff should normally be treated as F&A costs.”

The University charged directly to HHS awards three sampled transactions totaling $329 for administrative and clerical work. For example, our sample included a direct charge to an award for the salary of a fiscal coordinator. The employee’s duties included managing all project budgets, reconciling fiscal reports to funding agencies, correcting posting errors, and tracking personnel budget allocations. Costs for duties such as these should not have been charged directly to the awards because they involved salaries of administrative and clerical staff, and neither the nature of the work performed on the projects nor any other circumstances justified any unusual degree of administrative support or showed that the employees discharging these administrative and clerical duties were necessary for the performance of the awards.

---

7 Award entitled *Multiple Mechanisms of Nasal Chemoreception*.

8 Award entitled *The Role of PRDM1* [a gene that encodes a protein that acts as a repressor of beta-interferon gene expression] in *Neural Cell Fate Specification*.

9 An effort report is a type of personnel activity report that, under the University’s procedures, is used by salaried workers.

10 Award entitled *Trust and Genetics Research in Diverse U.S. Communities*. 
Based on our sample results, we estimated that the University charged unallowable salary costs of at least $529,145 to HHS awards during our audit period (an estimated $361,242 at the lower limit of the 90-percent confidence interval in salary costs plus an estimated $167,903 at the lower limit of the 90-percent confidence interval in related F&A costs).

**Nonsalary Costs**

Of the 100 transactions in our sample of nonsalary costs, 9 transactions totaling $1,615 were not allowable. Specifically:

- five transactions totaling $959 should have been treated as F&A costs rather than as direct charges to the awards,
- one transaction totaling $400 had insufficient supporting documentation, and
- three transactions totaling $256 were not allocable to three grants.

**Facilities and Administrative Costs Charged as Direct Costs**

Federal regulations (2 CFR part 220, Appendix A, § F.6.b) include specific guidance regarding the treatment of charges for administrative and clerical expenses incurred within various departments of a college or university, and state: “Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs.”

For five transactions totaling $959, the University charged as direct costs general-use supplies that should have been treated as F&A costs. These administrative expenses charged directly to HHS-funded grants, contracts, and other agreements included monthly local telephone line charges, memberships, a computer monitor, and general office supplies.

**Unsupported Costs**

Federal regulations (2 CFR part 215; OMB Circular A-110, § C.21(b)) state: “Recipient financial management systems shall provide for accounting records … that are supported by source documentation.”

For one transaction totaling $400, the University charged lab supplies to an award but could not provide a receipt or any other documentation supporting the charge.

---

11 Award entitled *Molecular Mechanisms of Ethanol Sensitivity in ILS [Inbred Long-Sleep] and ISS [Inbred Short-Sleep] Mice.*
Unallocable Costs

Pursuant to 2 CFR part 220, Appendix 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.

For three transactions totaling $256, the University improperly allocated costs. For example, the University charged an award\textsuperscript{12} for janitorial services including restroom cleanup and trash pickup. These services were billed as direct costs rather than as indirect (F&A) costs. Moreover, these billed services were actually for overtime work that was performed on another project and therefore did not meet the criteria for allocability as stated in 2 CFR part 220, Appendix A.

Based on our sample results, we estimated that the University charged unallowable nonsalary costs of at least $705,738 to HHS awards during our audit period (an estimated $532,919 at the lower limit of the 90-percent confidence interval in nonsalary costs plus an estimated $172,819 at the lower limit of the 90-percent confidence interval in related F&A costs).

Costs Charged to Two Awards After Relinquishment Dates

The University agreed to relinquish responsibility for two active projects before the expiration of the approved project period. Under this circumstance, the originally responsible organization (that is, the University) must submit form PHS (Public Health Service) 3734, Official Statement Relinquishing Interests and Rights in a Public Health Service Research Grant, to the awarding agency (in this case, NIH). The relinquishment statement contains the following agreement:

In view of the fact that we do not wish to nominate another principal investigator or continue the research project at this Institution, this is to signify our willingness to terminate this grant as of [date] and to relinquish all claims to any unexpended and uncommitted funds remaining in the grant as of that date, as well as to all recommended future support of this project.

During FY 2010, two principal investigators transferred from the University to another institution. With these transfers, the University agreed to relinquish all rights and interests for two awards, whose activities had been conducted by these principal investigators, to the gaining institution. After the relinquishment of these awards, the University received reimbursement of direct and F&A costs totaling $184,641.

\textsuperscript{12} Award entitled \textit{Colorado Clinical and Translational Science Institute}.
The University submitted relinquishing statements to NIH for the awards being transferred. In so doing, the University agreed that the first of these two awards13 would end on April 29, 2010, the relinquishment date for the award. However, from April 30, 2010, through September 30, 2010, the University claimed costs (for which it subsequently received reimbursement) totaling $113,926 for operating, payroll, and F&A costs for this award. The University agreed that another award14 would end on May 17, 2010. However, from May 18, 2010, through September 1, 2010, the University claimed costs (for which it subsequently received reimbursement) totaling $70,715 for operating, payroll, and F&A costs for this second award.

The University stated that it originally scheduled the awards to be relinquished in September 2010 but subsequently had to modify the relinquishment dates because the principal investigators decided to leave earlier than expected.

If the University incurred allowable costs for these awards after the relinquishment dates, the University should have received reimbursement from the other institution under a subcontract arrangement. Once the principal investigators had transferred and the awards had been relinquished, the University should not have claimed Federal reimbursement for any subsequent expenses.

INADEQUATE CONTROLS

The University’s oversight did not ensure that the costs that the University charged to HHS awards were allowable. Although its finance and accounting procedures often incorporated text from the applicable cost principles, the University largely left it to the discretion of its individual colleges, departments, and principal investigators to interpret the University’s policies and procedures for charging costs to Federal awards correctly and to comply with Federal regulations and guidance. In addition, the University’s Office of Grants and Contracts’ review of transactions did not ensure that the colleges, departments, and principal investigators proposed transactions that fully complied with Federal regulations. Without adequate oversight, the University could not ensure that administrative expenses charged as direct costs to HHS awards complied with applicable Federal regulations.

EFFECT OF UNALLOWABLE COSTS

Based on our sample results, we estimated that the University charged unallowable salary and nonsalary costs totaling at least $1,234,883 to HHS awards during our audit period. We also determined that the University charged unallowable direct and F&A costs totaling $184,641 for two awards to which the University continued to charge costs after the awards had been relinquished to another institution. These unallowable costs totaled $1,419,524.

---

13 Award entitled *Translational Regulation in Alzheimer’s Disease*.

14 Award entitled *Chromatin’s Role in Repair of Radiation-Induced Damage*. 
RECOMMENDATIONS

We recommend that the University:

- refund $1,419,524 to the Federal Government and
- exercise more stringent oversight of charges to Federal awards to ensure compliance with Federal regulations.

UNIVERSITY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the University disagreed with some of our findings. Specifically, the University stated that:

- 13 of the 18 salary transactions that we questioned were allowable and
- 1 of the 9 nonsalary transactions that we questioned was allowable.

Regarding our finding on the two awards that were relinquished to another institution, the University said that it had identified this error and notified NIH before our fieldwork, and it asked that we remove this finding from our report.

The University also took exception to our conclusions about its internal controls and the issue that we identified as “Other Matter.”

After reviewing the University’s comments and the additional information that it gave to us, we maintain that our findings and recommendations are valid. A summary of the University’s comments and our responses follows.

The University’s written comments are included as Appendix E. We excluded 126 pages of attachments because they contained personally identifiable information and because of their volume. We are providing the University’s comments in their entirety to NIH.

Salary Costs

University Comments

The University disagreed with 13 salary transactions totaling $4,727 that, according to our analysis, were unallowable because they were not supported with sufficient documentation.

The University cited 2 CFR part 220, Appendix A, § J.10.c(2)(c) as justification for a broader definition of the kinds of “responsible officials” who could verify that work had been performed.

---

15 The University’s comments referred to this regulation as OMB Circular A-21 rather than by the designation (2 CFR part 220) that we use in this report and that reflects this document’s codification in Federal regulations.
The University also cited §§ J.10.b(1)(c) and (d) of this same regulation, language which, the University said, acknowledged the complexity of payroll distribution and the fact that methods would therefore vary to accommodate this complexity.

The University also stated that the timesheets documenting these costs did not identify the projects or activities on which the employees worked because hourly employees generally did not know which projects their work benefited or, if they worked on multiple projects located in the same laboratory, the proportion of employee time devoted to each project. The University added that to obtain the firsthand knowledge needed for appropriate allocation of employee time and distribution of salaries, its batch approval process included a review and approval of the timecard input batch by one of the principal investigator’s management or administrative staff. The University concluded that these salary transactions met the documentation standards of 2 CFR part 220 and the University’s DS-2.

Office of Inspector General Response

The additional regulatory language that the University cited dealt with the methodology used to allocate and verify employee time. However, we are questioning these costs not on the basis of this methodology, but rather on the basis of the lack of adequate supporting documentation. On that basis, we disagree that the documentation that the University provided was sufficient support for these 13 salary transactions. The documentation of the batch approval process consisted of a spreadsheet and emails that were created after our fieldwork and that did not adequately support the costs in question. Therefore, the University was not able to provide suitable after-the-fact support (as required by 2 CFR part 220, Appendix A, § J.10.b(2)(b)) for the verification of distribution of salaries.

Nonsalary Costs

University Comments

The University disagreed with one nonsalary transaction totaling $221 in supply costs that, according to our analysis, was unallowable because it was not allocable to the grant.

The University stated that during the exit conference,¹⁶ we said that, based on our interview with the principal investigator of the project, these supply costs should have been allocated among more than one project. The University added that its Office of Grants and Contracts contacted the principal investigator, who replied that his response during the interview was more general in nature rather than specific to this invoice. The University concluded that this expense was not allocated to more than one project and was consumed by the single project.

Office of Inspector General Response

We disagree that this expense was consumed by the single project and should have not been allocated. In our interview, the principal investigator stated that the items in the invoice in question were general-use supplies and that these item expenditures were charged to projects

¹⁶ The exit conference took place on June 10, 2012; see “Methodology.”
based on what was available in the monthly budget. The principal investigator also mentioned that he worked on several projects and did not monitor or measure the allocation of general supply items among the projects. Because Federal regulations are clear as to the allocability of costs to sponsored projects, we maintain that the $221 charge to the Federal grant award was unallowable because the principal investigator told us the supplies were used on several projects, and the University was unable to provide us with additional documentation substantiating otherwise.

Reimbursement of Two Relinquished Awards

University Comments

The University agreed that reimbursement was claimed in error after the relinquishment date of two awards, but it disagreed with the inclusion of this finding in the report. The University said that it had identified this error and notified NIH of it on December 10, 2010—before the beginning of our fieldwork. The University also said that it reimbursed the entire amount owed to NIH on March 29, 2012, which was before the issuance of our draft report.

Office of Inspector General Response

We recognize that as a result of our audit, the University has returned these funds to NIH. Although the University had begun the resolution process to correct the two principal investigators’ termination dates, NIH officials indicated to us that they were not aware at the start of our fieldwork that the University had received reimbursement for expenses incurred after the relinquishment dates. Thus, NIH officials were not aware, prior to our audit, that the University intended to submit a refund for these improperly claimed expenditures. On December 22, 2011, we provided NIH with the information regarding these improperly claimed expenditures. NIH responded that those expenses were not allowable and requested that we facilitate the reimbursement of those funds.

Internal Controls

University Comments

The University disagreed with our statement that the errors discussed in this report were caused by inadequate controls and oversight. The University said that all of the findings with which it agreed were independent, isolated errors and that there was no indication that they were the result of a common and systematic cause. The University described its control environment as “an effective partnership” and added that our audit focused on the allowability of direct expenses and dealt primarily with documentation. The University thus stated that our conclusion regarding internal controls did not conform to the type of review we conducted or the nature of the errors we noted.
Office of Inspector General Response

As stated in “Scope,” we limited our assessment of internal controls to the University’s policies and procedures for charging costs to Federal awards. We based our conclusion related to internal controls on the issues that we identified. Our assessment of the University’s internal control deficiencies was consistent with both the scope of our audit and the nature of our findings. Consequently, we continue to recommend that the University exercise more stringent oversight of charges to Federal awards to ensure compliance with Federal regulations.

OTHER MATTER

Federal regulations (2 CFR part 220, Appendix A, §§ J.10.b(2) and J.10.c(2)) require “suitable means of verification that the work was performed.” In addition, University policy states that personnel are required to certify their effort reports within 120 days of their creation. (As mentioned earlier, an effort report is a type of personnel activity report that, under the University’s procedures, is used by salaried workers.) The University had effort reports that were certified 120 days or more after the reports were created. Three of fifty-seven salary transactions in our sample, supported with effort reports, had certifications that were more than 6 months past the report date. Without the effort reports being certified in a timely manner, the University has less assurance that the claimed salaries charged to HHS grants for those employees were appropriate.

UNIVERSITY COMMENTS

The University disagreed with our statement that one of the three effort reports in question was certified 120 days or more after the report was created. The University said that the date on this effort report was a recertification date rather than the date of the original certification.

In addition, the University said that neither 2 CFR part 220 nor University policy cite a definitive deadline for certification of the effort report. For this reason, and because all three effort reports were ultimately certified, the University disagreed with our conclusion about the verification process and asked that we remove this matter from our final report.

OFFICE OF INSPECTOR GENERAL RESPONSE

We maintain that all available documentation indicated that all three of the effort reports mentioned above were in fact certified 120 days or more after the reports were created, in violation of the University’s own written policy. Although the University said that the effort report in question was assumed to have been certified between the 45th and 70th day following its creation date, the University did not provide documentation of the original certification and its date. As a result, we can only rely on the supporting effort reports provided.

Further, although the cost principles in 2 CFR part 220 do not designate a specific time period or deadline for certification of effort reports, we maintain that the amount of time between the creation of an effort report and its certification affects the reliability of the certification itself; that is, the delays that we noted cast into some question the ability of these certifications to serve
as verification that the work was performed. We therefore maintain that the performance of certifications 120 days or more after the effort reports were created provides less assurance that the claimed salaries charged to HHS awards for those employees were appropriate.
APPENDIXES
APPENDIX A: SAMPLE DESIGN AND METHODOLOGY—
SALARY TRANSACTIONS

POPULATION

The population consisted of salary transactions that were charged to U.S. Department of Health and Human Services (HHS) awards during Federal fiscal year (FY) 2010. These transactions were for employee categories that are generally administrative and clerical in nature and treated as indirect costs and recovered through the University of Colorado Denver’s (the University) negotiated facilities and administrative (F&A) rates. These transactions were charged directly to Federal awards.

SAMPLING FRAME

The sample frame contained 10,889 salary transactions totaling $10,458,409.1

SAMPLE UNIT

The sample unit was a salary transaction.

SAMPLE DESIGN

We used a simple random sample.

SAMPLE SIZE

We selected a sample size of 100 salary transactions.

SOURCE OF RANDOM NUMBERS

We generated the random numbers with the Office of Inspector General (OIG), Office of Audit Services (OAS), statistical software.

---

1 The original sampling frame contained 10,901 salary transactions totaling $10,462,959. However, while performing our review of the sample units selected from the original sampling frame, we found that 12 salary transactions totaling $4,550 took place during a period when the University did not have a principal investigator overseeing the grant. According to the contracting officer, all claims during this period were unallowable. Because all 12 salary transactions were unallowable, we eliminated them from the original sampling frame of 10,901 and estimated the unallowable salary costs to the remaining 10,889 salary transactions totaling $10,458,409.
METHOD OF SELECTING SAMPLE ITEMS

We consecutively numbered the salary transactions from 1 through 10,901. After generating the random numbers, we selected the corresponding frame items.

ESTIMATION METHODOLOGY

We used the OIG, OAS statistical software to estimate the total amount of unallowable salary costs claimed as direct costs. We also estimated the amount of unallowable F&A costs associated with the unallowable salary costs.

---

2 The sample units were randomly selected from the original sampling frame of 10,901. Because we removed 12 salary transactions from the original sampling frame, we projected the unallowable salary costs to the remaining 10,889 salary transactions. All of the sample units selected from the original sampling frame were included in the sampling frame of 10,889 salary transactions.
APPENDIX B: SAMPLE DESIGN AND METHODOLOGY—
NONSALARY TRANSACTIONS

POPULATION

The population consisted of all nonsalary transactions that were charged directly to HHS awards from FY 2010. These transactions were for categories generally treated as indirect costs and recovered through the University’s negotiated F&A rates.

SAMPLING FRAME

The sample frame contained 72,322 nonsalary transactions totaling $32,008,520.¹

SAMPLE UNIT

The sample unit was a nonsalary transaction.

SAMPLE DESIGN

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

<table>
<thead>
<tr>
<th>Stratum</th>
<th>Range</th>
<th>Number of Transactions</th>
<th>Value of Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$5 through $50,000</td>
<td>72,298</td>
<td>$29,386,726</td>
</tr>
<tr>
<td>2</td>
<td>$50,001 and above</td>
<td>24</td>
<td>2,621,794</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>72,322</td>
<td>$32,008,520</td>
</tr>
</tbody>
</table>

SAMPLE SIZE

We selected a sample of 100 nonsalary transactions. The sample size by stratum was:

<table>
<thead>
<tr>
<th>Stratum</th>
<th>Number of Sample Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>76</td>
</tr>
<tr>
<td>2</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

¹ The original sampling frame contained 72,542 nonsalary transactions totaling $32,077,611. However, while performing our review of the sample units selected from the original sampling frame, we found that 220 nonsalary transactions totaling $69,091 took place during a period when the University did not have a principal investigator overseeing 2 grants. According to the contracting officer, all claims during this period were unallowable. Because all 220 nonsalary transactions were unallowable, we eliminated them from the original sampling frame of 72,542 and estimated the unallowable nonsalary costs to the remaining 72,322 nonsalary transactions totaling $32,008,520.
SOURCE OF RANDOM NUMBERS

We generated the random numbers with the OIG, OAS statistical software.

METHOD OF SELECTING SAMPLE ITEMS

We consecutively numbered the nonsalary transactions in each stratum. After generating the random numbers for stratum 1, we selected the corresponding frame items.² For stratum 2, we selected all the nonsalary transactions.

ESTIMATION METHODOLOGY

We used the OIG, OAS statistical software to estimate the amount of unallowable nonsalary costs claimed as direct costs. We also estimated the amount of unallowable F&A costs associated with the unallowable nonsalary costs.

² The sample units were selected from the original sampling frame of 72,542. Because we removed 220 nonsalary transactions from the original sampling frame, we projected the unallowable salary costs to the remaining 72,322 nonsalary transactions. All of the sample units selected from the original sampling frame were included in the sampling frame of 72,322 nonsalary transactions.
## APPENDIX C: SAMPLE RESULTS AND ESTIMATES—SALARY COSTS

### Sample Results: Unallowable Salary Costs

<table>
<thead>
<tr>
<th>Frame Size</th>
<th>Value of Frame</th>
<th>Sample Size</th>
<th>Value of Sample</th>
<th>Number of Unallowable Transactions</th>
<th>Value of Unallowable Transactions</th>
<th>Value of Unallowable F&amp;A Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,889</td>
<td>$10,458,409</td>
<td>100</td>
<td>$97,991</td>
<td>18</td>
<td>$7,619</td>
<td>$3,804</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Unallowable Salary Costs</th>
<th>Unallowable F&amp;A Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Point estimate</td>
<td>$829,676</td>
</tr>
<tr>
<td>Lower limit</td>
<td>361,242</td>
</tr>
<tr>
<td>Upper limit</td>
<td>1,298,111</td>
</tr>
</tbody>
</table>
## APPENDIX D: SAMPLE RESULTS AND ESTIMATES—NONSALARY COSTS

### Sample Results: Unallowable Nonsalary Costs

<table>
<thead>
<tr>
<th>Stratum</th>
<th>Frame Size</th>
<th>Value of Frame</th>
<th>Sample Size</th>
<th>Value of Sample</th>
<th>Number of Unallowable Transactions</th>
<th>Value of Unallowable Transactions</th>
<th>Value of Unallowable F&amp;A Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>72,298</td>
<td>$29,386,726</td>
<td>76</td>
<td>$61,871</td>
<td>9</td>
<td>$1,615</td>
<td>$692</td>
</tr>
<tr>
<td>2</td>
<td>24</td>
<td>2,621,794</td>
<td>24</td>
<td>2,621,794</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>72,322</td>
<td>$32,008,520</td>
<td>100</td>
<td>$2,683,665</td>
<td>9</td>
<td>$1,615</td>
<td>$692</td>
</tr>
</tbody>
</table>

### Estimated Value of Unallowable Nonsalary Transactions

*(Limits Calculated for a 90-Percent Confidence Interval)*

<table>
<thead>
<tr>
<th></th>
<th>Unallowable Nonsalary Costs</th>
<th>Unallowable F&amp;A Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Point estimate</td>
<td>$1,536,390</td>
<td>$658,405</td>
</tr>
<tr>
<td>Lower limit</td>
<td>532,919</td>
<td>172,819</td>
</tr>
<tr>
<td>Upper limit</td>
<td>2,539,860</td>
<td>1,143,991</td>
</tr>
</tbody>
</table>
APPENDIX E: UNIVERSITY COMMENTS

University of Colorado Denver | Anschutz Medical Campus

Report Number: A-07-11-06013

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
601 East 12th Street, Room 0429
Kansas City, MO 64106

January 25, 2013

Dear Mr. Cogley,

Following is the University of Colorado Denver's response to the draft report entitled The University of Colorado Denver Did Not Always Claim Selected Costs Charged Directly to Department of Health and Human Services Awards in Accordance with Federal Regulation.

In accordance with your letter received on December 27, 2012, we have included in our response those recommendations with which we agree along with our corrective action.

We have also included in our response those recommendations with which we do not agree along with the basis of our position. In addition, we have attached to this response both the supporting documentation that has already been submitted to the Department of Health and Human Services, Office of Inspector General (OIG) and any new supporting documentation that was compiled since our last response. Also for your reference, we have included as an attachment to this response, a copy of the University of Colorado Denver's response to the July 10, 2012 Exit conference that was forwarded to the OIG on September 7, 2012.

We appreciate the opportunity to present the basis of our non-concurrence for your consideration and look forward to discussing with you these items prior to the final publication of this report. In those cases where we are unable to reach mutual resolution prior to publication of the report, we request that our disagreement be reflected in the final report, with a brief text explanation. Please let us know for which items you would like us to prepare a short summary of our disagreement.

If we can assist with any questions or provide any additional information you may need, please feel free to contact Pam Vincent. Her email is Pam.Vincent@UCDenver.edu and her office phone is 303-724-0019.

Thank you again for your consideration of the attached information.

Regards,

[Signatures]

Richard F. Traystman, Ph.D.
Vice Chancellor for Research
University of Colorado Denver

Steve Zweck-Bronner
Office of the University Counsel
University of Colorado Denver
REIMBURSEMENT OF TWO REQLINQUISHED AWARDS - RESPONSE

The Department of Health and Human Services, Office of Inspector General (OIG) draft report included in the recommended amount to be reimbursed to the Federal Government $184,641 for expenses incurred after the relinquishment date on two awards. The University of Colorado Denver (CU Denver) does not agree with this recommendation or the inclusion of this issue in the audit report as CU Denver reimbursed NIH the entire amount owed to NIH on March 29, 2012, prior to the issuance of this report. It should also be noted that CU Denver had begun the resolution process with departmental fiscal personnel and NIH on December 10, 2010, prior to the beginning of the OIG field work on this audit. This information was shared with OIG during the audit, but CU Denver would like to reiterate the information in this response.

It should be noted that both of these awards were transferred together as the PI’s were related and left the institution at the same time. Therefore, we worked on all of the relinquishments with our Departmental Personnel as a single issue - which will be reflected in the descriptions below.

CU Denver agrees that the relinquishment effective dates were modified from September 30, 2010 to April 30, 2010 and May 17, 2010. However, these changes were not known by the Office of Grants and Contracts (OGC) until mid-December 2010 when working to close-out the award still using the original relinquishment dates of September 30, 2010. Upon discovery of the change in the effective date of the terminations, OGC notified the department that the relinquishment statements would need to be corrected. In addition, NIH was also notified of the needed correction. This initial communication was started on December 12, 2010 – prior to the start of this OIG audit.

OGC continued to work with Departmental Personnel and the NIH to correct this error. However, due to the complexity added by the continued work, and working with more than one Institute and Grants Management Specialists within NIH, this was still an on-going, independent effort during OIG’s fieldwork. This issue was resolved and re-payment made prior to the receipt of this Final Report Draft. Specifically, the repayment was completed with the March 29, 2012 draw.

CU Denver is forwarding with this response a sample of email messages. These messages document the starting point of CU Denver’s work, pertinent summaries of the steps taken to resolve this error, the timing of these steps and the oversight demonstrated. In addition, CU Denver is sending screen prints from the Payment Management System (PMS) as of the quarter ending March 31, 2012 documenting the authorized amount set by the NIH award. The amounts on these PMS documents also agree with the total expenses on the Federal Financial Reports which are in an "accepted" status on NIH Commons. The concurrence of the authorized amount to the amount of the expenses provides further documentation that all amounts have been repaid to the satisfaction of NIH.

This error had already been identified and disclosed by CU Denver to NIH prior to the start of OIG’s audit and the correction process completed prior to the receipt of this audit report. As a result, it is CU Denver’s position that this unusual and isolated issue should be excluded from this report and the amount of findings reduced by the amount already reimbursed to NIH.
UNALLOWABLE COSTS

Salary Costs - Background

CU-Denver agrees with the OIG summary of the first OMB Circular A-21 reference which outlines the criteria for an acceptable method of payroll distribution (Section J.10.b(2)(b)).

The OIG also cites Section J.10.c(2)(c) which provides examples of acceptable methods of payroll distribution. The OIG report includes the OMB section which states, "These reports are to be signed either by the employee or principal investigator "using a suitable means of verification that the work was performed". This quote does not include the complete OMB text—the complete OMB text lists another party who is considered an acceptable individual for purposes of confirming the distribution of payroll expense—a "responsible official(s)." Therefore, under the examples provided by the OMB in this section, the certification of a payroll distribution can be made "by the employee, principal investigator or responsible official(s) using suitable means of verification that the work was performed".

The other Section of the OMB Circular A-21 that is applicable but not referenced in the OIG report is Section J.10.b(1)(c) and (d) Compensation for personal services – Payroll Distribution, General Principles. Specifically, subsections (c) and (d) state:

(c) In the use of any methods for apportioning salaries, it is recognized that, in an academic setting, teaching, research, service, and administration are often inextricably intermingled. A precise assessment of factors that contribute to costs is not always feasible, nor is it expected. Reliance, therefore, is placed on estimates in which a degree of tolerance is appropriate.

(d) There is no single best method for documenting the distribution of charges for personal services. Methods for apportioning salaries and wages, however, must meet the criteria specified in subsection b(2). Examples of acceptable methods are contained in subsection c. Other methods that meet the criteria specified in subsection b.(2) also shall be deemed acceptable, if a mutually satisfactory alternative agreement is reached.

The section acknowledges the complexity of payroll distribution and methods will vary to accommodate this complexity.

CU Denver’s Disclosure Statement (DS-2) also acknowledges this complexity by referencing both the employee and employer’s involvement in the actual certification of the payroll distribution. Viewing CU Denver’s DS-2 within the OMB framework indicates that the employee is not the only individual that can certify the payroll distribution nor does it exclude the validity of the employer’s approval of the effort distribution documented in other locations other than just the timecard. Keeping CU Denver’s DS-2 statement within the context of the complexity referenced in the OMB Circular A-21, provides a more complete and well-rounded interpretation of the over-all requirements of effort certification: (1) certification the number of hours worked are accurate and (2) the distribution of these actual hours are allocated to the project(s) to which they benefitted and this distribution is approved by someone with first-hand knowledge.
Salary Costs – Sample Items Response

The University of Colorado Denver (CU Denver) agrees with the errors noted for the following payroll items:

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Project ID</th>
<th>Pay Period End Date</th>
<th>Disallowed Amount</th>
<th>Reason for Disallowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>68</td>
<td>2517082</td>
<td>10/31/2009</td>
<td>2,083.33</td>
<td>Unsupported charges</td>
</tr>
<tr>
<td>5</td>
<td>2574368</td>
<td>3/31/2010</td>
<td>28.14</td>
<td>Administrative salary charged as direct</td>
</tr>
<tr>
<td>28</td>
<td>2573723</td>
<td>6/30/2010</td>
<td>84.26</td>
<td>Administrative salary charged as direct</td>
</tr>
<tr>
<td>29</td>
<td>2574047</td>
<td>7/31/2010</td>
<td>216.67</td>
<td>Administrative salary charged as direct</td>
</tr>
<tr>
<td>10</td>
<td>2526987</td>
<td>2/20/2010</td>
<td>480.00</td>
<td>Disagree with Unsupported Charges conclusion but agree with cost transfer not supported</td>
</tr>
</tbody>
</table>

Total 2,892.40

These expenses have been removed from the projects, and the amounts reimbursed to our Sponsor(s).

CU Denver, however, disagrees with the remaining thirteen disallowances in this section:

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Project ID</th>
<th>Pay Period End Date</th>
<th>Disallowed Amount</th>
<th>Reason for Disallowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>2574313</td>
<td>2/6/2010</td>
<td>40.00</td>
<td>Timesheet reported total hours worked but no projects or activities.</td>
</tr>
<tr>
<td>18</td>
<td>2591124</td>
<td>1/9/2010</td>
<td>106.25</td>
<td>Timesheet reported total hours worked but no projects or activities.</td>
</tr>
<tr>
<td>25</td>
<td>2552475</td>
<td>3/6/2010</td>
<td>235.00</td>
<td>Timesheet reported total hours worked but no projects or activities.</td>
</tr>
<tr>
<td>52</td>
<td>2550159</td>
<td>10/3/2009</td>
<td>462.00</td>
<td>Timesheet reported total hours worked but no projects or activities.</td>
</tr>
<tr>
<td>64</td>
<td>2594160</td>
<td>2/20/2010</td>
<td>543.25</td>
<td>Timesheet reported total hours worked but no projects or activities.</td>
</tr>
<tr>
<td>65</td>
<td>2594165</td>
<td>11/28/2009</td>
<td>122.10</td>
<td>Timesheet reported total hours worked but no projects or activities.</td>
</tr>
<tr>
<td>66</td>
<td>2594165</td>
<td>2/20/2010</td>
<td>168.28</td>
<td>Timesheet reported total hours worked but no projects or activities.</td>
</tr>
<tr>
<td>67</td>
<td>2570079</td>
<td>6/12/2010</td>
<td>300.00</td>
<td>Timesheet reported total hours worked but no projects or activities.</td>
</tr>
<tr>
<td>79</td>
<td>2560394</td>
<td>8/7/2010</td>
<td>72.24</td>
<td>Timesheet reported total hours worked but no projects or activities.</td>
</tr>
<tr>
<td>90</td>
<td>2550230</td>
<td>8/21/2010</td>
<td>780.00</td>
<td>Timesheet reported total hours worked but no projects or activities.</td>
</tr>
<tr>
<td>95</td>
<td>2521655</td>
<td>4/3/2010</td>
<td>486.00</td>
<td>Timesheet reported total hours worked but no projects or activities.</td>
</tr>
<tr>
<td>97</td>
<td>2515366</td>
<td>7/10/2010</td>
<td>475.88</td>
<td>Timesheet reported total hours worked but no projects or activities.</td>
</tr>
<tr>
<td>83</td>
<td>2590224</td>
<td>6/12/2010</td>
<td>936.00</td>
<td>Timesheet reported total hours worked but no projects or activities. Also, cost transfer not supported.</td>
</tr>
</tbody>
</table>

Total 4,727.00

January 25, 2013
University of Colorado Denver
OIG Audit of Allowable Direct Charges
Response to Final Report Draft Received December 27, 2012

As conceded by the OIG at the July 10, 2012 exit conference, the thirteen above disputed expenses are appropriate and therefore the Federal Government was not harmed by the booking and reimbursement of these wage transactions. The issue under continued discussion is the interpretation of what constitutes sufficient supporting documentation as outlined in CU Denver’s DS-2 for only the distribution of the sufficiently documented actual hours worked.

To determine the adequacy of the internal controls over hourly employees' wages, the functioning of the laboratory environment must be taken into account. Hourly employees most often are responsible for routine, repetitive tasks. As a result, the hourly employee would generally be able to certify to which project their work benefits only if they are hired to work on one project, or if working on multiple projects, each project is located in a separate laboratory. The hourly employee, most often, will not have knowledge of which projects their work benefits and in what proportion if they work on multiple projects located in the same laboratory.

For example, an hourly employee may wash glassware or run assays where the identical activity is completed regardless of which project used the glassware or used the assay results. In these instances, only the PI and/or his/her laboratory management/administrative/fiscal staff would have knowledge of the mix of the active projects in the single laboratory during the pay-period and therefore the knowledge of the appropriate allocation method to reasonably allocate the hourly employees' effort.

To incorporate the first-hand knowledge needed for appropriate allocation into our processes, CU Denver includes a review/approval of the timecard input batch by one of the PI's appropriate laboratory management/administrative/fiscal staff. This occurs after the work is completed and the expense allocation is determined, but before the expense is booked to the General Ledger (G/L) and the paycheck cut.

This "batch approval process" is part of CU Denver's standard hourly payroll approval process that is required for all hourly payroll transactions. Unlike reliance upon only the time-card for documentation, this standard batch approval process would be applicable in all situations and for every batch entered as part of the bi-weekly payroll cycles.

This approval is documented in the payroll system. The name and title of each approver for each batch under discussion in June/July 2012, was provided to the OIG auditors on June 19, 2012. There are two additional batch approvals that are attached to this response.

In addition to the statement in CU Denver's DS-2 referenced by the OIG above, this section continues on to reference both the employee and employer's involvement in the actual certification. As a result, it is CU Denver's intent and disclosed in our DS-2 Statement that the review/approval process of the actual time distribution via the batch approval is to be considered as part of the complete approvals and in addition to the time-card the review/certification.

If an interpretation of CU Denver's DS-2 statement were to require the use of anything less than both approval/certification pieces, it would only weaken the internal controls of the current approval processes. As a result, it is CU Denver's position that these thirteen transactions were approved by both the employee, certifying the number of hours worked and by one of the PI's staff with the knowledge of the appropriate allocation of the expense certifying the accuracy of the allocation of effort after the work is complete and before the expense is booked to the General Ledger. As a result, these expenses
do meet documentation standards of both OMB Circular A-21 and also of CU Denver’s DS-2 statement (taken in its entirety). Therefore it is CU Denver’s position that these costs are allowable as direct charges.

In addition, the OIG recommended that the cost transfer for salary sample item number 83 is unallowable due to insufficient documentation of the cost transfer. CU Denver disagrees with this recommendation. The cost transfer references that this transfer of wage expense was per [REDACTED] (the PI on this award) and [REDACTED] (the PI’s fiscal staff). Per OMB Circular A-21 Section C.4.d.(4) the approval of the principal investigator or designee is usually sufficient if the institution authorizes the PI as having the primary responsibility for the awards. This is the case for CU Denver. As a result, CU Denver disagrees with both errors noted on this sample item and is of the position that this is also an allowable direct cost.

**Salary Costs – Summary**

- All of the thirteen transactions in dispute meet the A-21 requirements referenced above because:
  - After-the-fact confirmation of the number of hours worked was provided by the hourly employees signatures, and
  - The distribution of these actual hours was determined by a representative of the employer with adequate first-hand knowledge of the best allocation method to be used to most closely match how actual effort was spread across the projects active during the pay-period
- All thirteen transactions are appropriate direct costs and therefore, the Federal Government has not been harmed
- All thirteen transactions in dispute also align with CU Denver’s DS-2 where the review and approval of the distribution of actual effort by the employer’s representative is documented via the standard batch approval of the actual expense allocation with-in the bi-weekly payroll cycle.
- All batch approvals also document CU Denver’s compliance with adequate internal controls as required by Generally Accepted Accounting Principles.

**Non Salary Costs – Sample Item Response**

Of the nine errors that were identified by the OIG, CU Denver agrees with all of the following items:

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Project ID</th>
<th>Journal Date</th>
<th>Disallowed Amount</th>
<th>Category of Questioned Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>2515328</td>
<td>12/15/2009</td>
<td>145.00</td>
<td>F &amp; A costs charged as direct</td>
</tr>
<tr>
<td>28</td>
<td>2522262</td>
<td>2/18/2010</td>
<td>318.75</td>
<td>F &amp; A costs charged as direct</td>
</tr>
<tr>
<td>14</td>
<td>2517784</td>
<td>7/1/2010</td>
<td>270.00</td>
<td>F &amp; A costs charged as direct</td>
</tr>
<tr>
<td>74</td>
<td>2574304</td>
<td>11/30/2009</td>
<td>183.96</td>
<td>F &amp; A costs charged as direct</td>
</tr>
<tr>
<td>81</td>
<td>2581203</td>
<td>5/12/2010</td>
<td>41.46</td>
<td>F &amp; A costs charged as direct</td>
</tr>
<tr>
<td>43</td>
<td>2552496</td>
<td>1/28/2010</td>
<td>400.00</td>
<td>Missing invoice</td>
</tr>
<tr>
<td>42</td>
<td>2550237</td>
<td>6/30/2010</td>
<td>6.12</td>
<td>Unallocable costs - Costs charged in error</td>
</tr>
<tr>
<td>91</td>
<td>2591129</td>
<td>5/6/2010</td>
<td>29.25</td>
<td>Unallocable costs</td>
</tr>
</tbody>
</table>
These expenses have been removed from the projects, and the amounts reimbursed to our Sponsor(s).

However, CU Denver disagrees with the following item:

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Project ID</th>
<th>Journal Date</th>
<th>Disallowed Amount</th>
<th>Category of Questioned Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>77</td>
<td>2580858</td>
<td>5/26/2010</td>
<td>220.52</td>
<td>Shared costs with no basis for allocation</td>
</tr>
</tbody>
</table>

The supported documentation forwarded to the OIG during the fieldwork (and again attached with this response) indicated that this expense was not allocated to more than one project. Rather the supplies were consumed by the single project to which the purchase was charged.

However, in the Exit Conference, the OIG indicated that per their interview with the PI, that these supplies were shared and therefore should have been allocated among more than one project.

With this large disparity, the Office of Grants and Contracts at CU Denver, contacted the PI to inquire if they could assist with helping explain this disparity based on their recollection of the interview with the OIG auditors. The PI has provided the email included in this response that indicates that the specific invoice was properly charged to the single project. He also mentions that his response to the OIG auditors was more general in nature rather than specific to this invoice.

As a result, this charge should be allowable as a direct cost and removed from this final report.

INADEQUATE CONTROLS

The Draft report makes the following finding:

The University's oversight did not ensure that the costs that the University charged to HHS awards were allowable. Although its finance and accounting procedures often incorporated text from the applicable cost principles, the University largely left it to the discretion of its individual colleges, departments, and principal investigators to interpret the University's policies and procedures for charging costs to Federal awards correctly and to comply with Federal regulations and guidance. In addition, the University's Office of Grants and Contracts' review of transactions did not ensure that the colleges, departments, and principal investigators proposed transactions that fully complied with Federal regulations. Without adequate oversight, the University could not ensure that administrative expenses charged as direct costs to HHS awards complied with applicable Federal regulations.

Internal Controls: The control environment at CU Denver is an effective partnership between the principle investigator (PI), campus departments, and the Office of Grants and Contracts. The University operates in a decentralized manner with shared responsibility starting from the origination of a transaction at the department level to the issuance of the federal financial report (FFR) by the Office of Grants and Contracts (OGC). All purchase order expenditure transactions that exceed a $5,000 threshold are pre-audited by OGC prior to processing. Cost transfers are created by knowledgeable departmental personnel and reviewed and approved by OGC Post Award staff. Timely detailed financial transaction reports by project are made available to the PI, departmental administrators, and OGC to
assist with their review. The Office of Grants and Contracts through Post Award Administration also conducts a review of direct charges to sponsored projects during FFR preparation which occurs at various set intervals during the life of the project. Any questioned or inappropriate charges are removed from the applicable sponsored project. This total partnership approach between the department and OGC helps to ensure transactions are allowable and adhere to federal rules and regulations.

Prior Audits: CU Denver's internal control environment as outlined above was verified by two prior independent audits conducted on behalf of NIH and the National Science Foundation that were issued on April 19, 2011 and September 7, 2012 respectively. These audits confirmed no material weaknesses in CU Denver's internal controls processes. Copies of these reports may be obtained directly from NIH and NSF. The related contact information is attached to this letter.

Training Program: CU Denver has an extensive sponsored project administration training program to support the control environment and partnership with the PI and campus departments. See website at http://www.ucdenver.edu/academics/research/AboutUs/GrantsContractsOffice/training-documentation/training/Pages/AdministratorStaffEducation.aspx. Training areas include:

a) Research Administration for Faculty
b) Research Administration for Departmental Administrators – Start to Finish
c) Electronic Personnel Effort Reporting
d) Direct Charging to Sponsored Projects

Since 2005, all new PIs have been required to complete the above courses before expenses may be booked to a sponsored project. This is controlled by restriction of the General Ledger account that has been set-up for the sponsored project work. Once the above courses are completed, the account will become available to the PI.

In addition, OGC offers monthly "Brown Bag" meetings to help reinforce the control environment. Topics include, direct charging, cost transfers, effort reporting, etc. For a listing of recent brown bag sessions, see website http://www.ucdenver.edu/academics/research/AboutUs/GrantsContractsOffice/training-documentation/training/Pages/BrownBagSessions.aspx.

All of the agreed-upon errors can be characterized as independent, isolated errors and there is no indication that these were the result of a common and systematic cause. The issue of the relinquished awards was also one that was independently self-identified by CU Denver and managed to a successful conclusion.

The remaining items (i.e., the salary errors under dispute) are due to differing interpretation of the documentation standards of only the allocation of hourly payroll expenses as outlined in CU Denver's DS-2. Therefore, the concerns under discussion do not relate to the adequacy of the internal controls built into CU Denver's business process. Rather these concerns related to only the interpretation of sufficient documentation required by CU Denver's DS-2.
University of Colorado Denver  
OIG Audit of Allowable Direct Charges  
Response to Final Report Draft Received December 27, 2012

It should also be noted that the focus of the OIG’s audit was the allowability of direct expenses. As a result, most of the field work completed was reviewing supporting documentation of specific transactions and the allocation thereof. There were few discussions or requests for data that would have tested CU Denver’s various business processes and internal control points contained therein. As a result, it is CU Denver’s position that OIG’s conclusion regarding internal controls does not match with the type of reviews completed or with the nature of the errors noted.

OTHER MATTERS

Under this section, OIG concludes that, due to three ePERS being certified past the CU Denver’s goal of 120 days that “the University has less assurance that the claimed salaries charged to HHS grants for those employees were appropriate”.

CU Denver disagrees with the number of ePERS OIG referenced that were received after CU Denver’s goal and the conclusions drawn regarding the impact of these ePERS.

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Project ID</th>
<th>Pay Period End Date</th>
<th>Expense Amount</th>
<th>ePER Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>2526894</td>
<td>3/31/2010</td>
<td>1,359.25</td>
<td>Certified between 45th and 70th day after report creation</td>
</tr>
<tr>
<td>51</td>
<td>2550159</td>
<td>4/30/2010</td>
<td>4185.61</td>
<td>Certified 3.5 Months after CU Denver’s goal</td>
</tr>
<tr>
<td>72</td>
<td>2581116</td>
<td>10/17/2009</td>
<td>811.20</td>
<td>Certified 2 Months after CU Denver’s goal</td>
</tr>
</tbody>
</table>

As part of CU Denver’s standard process, email reminders are sent both before and, if needed, after the targeted 120 day response goal is reached. This was true for the three ePERS referenced in this OIG report. The result of this follow-up was that the two ePERS were only 2 months and 3.5 months past the targeted due date.

The third ePER identified by the OIG as late was certified between the 45th and 70th day following the ePER creation date, and therefore cannot be categorized as late. The date on the ePER forwarded to the OIG during the field work was a re-certification date rather than the date of the original certification.

Based on the additional documentation forwarded with this response, both the original certification and the re-certification were completed within the 120-day goal. As a result, it is CU Denver’s position that this error should be removed before the final report is issued, and the statistics in the report modified to 2 delayed ePERS out of 58 (3% of the items sampled).

In summary, neither OMB Circular nor CU Denver policy cites a definitive deadline for the completion of an ePER for a salary cost to be allowable. This lack of deadline along with the demonstrated effectiveness of CU Denver’s standard follow-up (resulting in both ePERS being completed) does not support OIG’s conclusion that ePERS poses a risk to the assurance of accurate effort distribution. As a result, it is CU Denver’s position that the data supports the conclusion that there is not a concern with the effort distribution confirmation related to the allowability of expenses, and therefore this section should be removed from the final report.

January 25, 2013
Page 8 of 53