

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CASE WESTERN RESERVE
UNIVERSITY CLAIMED
ALLOWABLE EQUIPMENT
COSTS UNDER
NATIONAL INSTITUTES OF
HEALTH GRANTS**

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Office of 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

BACKGROUND

The National Institutes of Health (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.

Federal Requirements for NIH Grantees

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

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.

Cost principles for Educational Institutions at 2 CFR 220, App. A, § J.18(b)(2) state that “[c]apital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5000 or more have the prior approval of the awarding agency.” Pursuant to the NIH Grants Policy Statement (December 2003)¹, in general, the Program Director/Principal Investigator may make changes in the methodology, approach, or other aspects of the project objectives. However, the grantee must obtain prior approval from the NIH awarding Institute or Center for a change in scope. A change in scope is a change in the direction, aims, objectives, purposes, or type of research training, identified in the approved project. The grantee must make the initial determination of the significance of a change and should consult with the Grants Management Office (GMO) as necessary. Pursuant to the NIH Grants Policy Statement (December 2003), “[a]ctions likely to be considered a change in scope and, therefore, requiring NIH awarding office prior approval include” significant rebudgeting or

¹This version of the NIH Grants Policy Statement was effective for all NIH grants and cooperative agreements with budget periods beginning on or after December 1, 2003 through September 30, 2010.

the purchase of a unit of equipment exceeding \$25,000. Significant rebudgeting occurs when “expenditures in a single direct cost budget category deviate (increase or decrease) from the categorical commitment level established for the budget period by more than 25 percent of the total costs awarded.”

Case Western Reserve University’s NIH Funded Equipment

Case Western Reserve University (the grantee) is a private institution founded in 1826. The grantee made 27 equipment purchases, exceeding \$25,000, with NIH funds in the amount of \$1,745,517. The purchase period was January 1, 2011, through December 31, 2011.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective 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.

Scope

We limited our review to 27 pieces of equipment exceeding \$25,000 in cost that were purchased with NIH grant funds during the period January 1, 2011, through December 31, 2011. The grantee claimed \$1,745,517 for the 27 pieces of equipment. 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 performed field work at the grantee’s administrative office in Cleveland, Ohio in August 2012.

Methodology

To accomplish our objective, we:

- 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 university 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 award budget.

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

RESULTS OF AUDIT

The grantee claimed \$1,745,517 for equipment exceeding \$25,000 in cost that was allowable under the terms of the grant and applicable Federal regulations.