

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**UNIVERSITY OF CALIFORNIA,
SAN DIEGO, DID NOT ALWAYS CLAIM
NONPAYROLL ADMINISTRATIVE AND
CLERICAL COSTS CHARGED DIRECTLY
TO HHS 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.*



**Lori A. Ahlstrand
Regional Inspector General
for Audit Services**

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Office of Inspector General

<http://oig.hhs.gov>

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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.

EXECUTIVE SUMMARY

The University of California, San Diego, did not always claim reimbursement for nonpayroll administrative and clerical costs charged directly to HHS awards in accordance with Federal regulations and applicable guidelines. We estimated that the University claimed at least \$202,000 in unallowable costs for a 2-year period.

WHY WE DID THIS REVIEW

The Department of Health and Human Services (HHS) award administration rules require recipients of awards to ensure that costs charged to those awards are allowable under applicable Federal regulations. The University of California, San Diego (the University), received significant funding from HHS awards, including funding from the American Recovery and Reinvestment Act (Recovery Act). In fiscal year 2010, the University received \$485.9 million from HHS awards and \$73.4 million from the Recovery Act. This review of the University's nonpayroll costs is part of a series of Office of Inspector General reviews to determine whether selected colleges and universities claimed administrative and clerical costs in accordance with Federal requirements. We issued a separate report on our review of the University's payroll costs charged directly to HHS awards (report number A-09-12-01001).

Our objective was to determine whether the University claimed reimbursement for nonpayroll administrative and clerical costs charged directly to HHS awards in accordance with Federal regulations and applicable guidelines.

BACKGROUND

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 were allowable under the cost principles established in 2 CFR part 220, Appendix A. The costs charged to Federal awards must be supported with adequate documentation. In addition, the regulations governing the allowability of direct costs charged to Federal grants, contracts, and other agreements require that, to be allowable, a direct cost must be reasonable, be allocable, be treated consistently, and conform to any limitations or exclusions set forth in the cost principles.

The regulations state that costs incurred for the same purpose in like circumstances are treated consistently as either direct or facilities and administrative (F&A) costs. Direct costs are incurred solely for the performance of a specific project, whereas F&A costs are indirect expenses that are incurred for common or joint objectives of the institution and therefore cannot be readily and specifically identified with a particular project or projects. The regulations also state that administrative and clerical costs should normally be treated as F&A costs.

The University, located in La Jolla, California, is a publicly funded institution of higher education and 1 of the 10 campuses of the University of California system. Nonpayroll administrative and clerical costs are generally recorded in the University's financial system under the account category "Supplies and Expenses."

HOW WE CONDUCTED THIS REVIEW

Our review covered nonpayroll administrative and clerical costs of \$26.9 million claimed by the University from October 1, 2008, through September 30, 2010. We limited our review to nonpayroll administrative and clerical costs charged as direct costs to grants, contracts, and other agreements between the University and components of HHS, including the National Institutes of Health and the Public Health Service. We reviewed a stratified random sample of 142 nonpayroll administrative and clerical transactions.

WHAT WE FOUND

The University did not always claim reimbursement for nonpayroll administrative and clerical costs charged directly to HHS awards in accordance with Federal regulations and applicable guidelines. Of the 142 sample transactions, 125 were allowable. However, 17 sample transactions, totaling \$56,375, were not allowable. Specifically, the University claimed (1) costs for temporary employees that were not adequately supported, (2) costs for goods and services that were not allocable to the HHS awards, (3) office supply costs that were improperly charged as direct costs, and (4) excess F&A costs for a capital expenditure misclassified as maintenance and repairs. In addition, the University claimed \$26,210 of unallowable F&A costs related to the unallowable direct nonpayroll costs.

The University claimed unallowable costs because it did not always provide adequate oversight of nonpayroll administrative and clerical costs charged directly by departments to HHS awards to ensure compliance with Federal regulations. On the basis of our sample results, we estimated that the University claimed at least \$202,401 in unallowable costs, consisting of \$148,803 in unallowable nonpayroll costs and \$53,598 in unallowable F&A costs related to the unallowable direct costs and the misclassification of a capital expenditure as maintenance and repairs.

WHAT WE RECOMMEND

We recommend that the University:

- refund \$202,401 to the Federal Government,
- reclassify maintenance and repair costs as a capital expenditure, and
- enhance oversight of nonpayroll administrative and clerical costs charged directly to HHS awards to ensure compliance with Federal regulations.

UNIVERSITY COMMENTS AND OUR RESPONSE

In written comments on our draft report, the University concurred with our second and third recommendations and provided information on actions that it had taken or planned to take to address our recommendations. Regarding our first recommendation, the University concurred with our disallowances of eight sample transactions totaling \$27,519 and provided information on actions that it had taken or planned to take to refund the amounts associated with the sample

transactions and the related F&A costs. However, the University did not explicitly address our estimated total refund amount.

Regarding our finding that the costs claimed for temporary employees were not adequately supported, the University did not concur with our disallowances of 10 sample transactions and provided additional explanation and documentation. After reviewing supplemental information and documentation provided by the University, we allowed one of these transactions, which reduced the total number of unallowable nonpayroll transactions from 18 to 17. Accordingly, we reduced our estimate of unallowable costs to \$202,401. However, the additional information provided by the University for the remaining unallowable transactions did not constitute sufficient documentation for us to conclude that the questioned costs were allowable.

TABLE OF CONTENTS

INTRODUCTION	1
Why We Did This Review	1
Objective	1
Background	1
Federal Regulations for Determining Allowability of Costs	1
University of California, San Diego	2
University Award Administration	2
How We Conducted This Review	2
FINDINGS	3
The University Claimed Unallowable Nonpayroll Administrative and Clerical Costs	3
Costs for Temporary Employees Were Not Adequately Supported	3
Costs for Goods and Services Were Not Allocable to HHS Awards	4
Office Supply Costs Were Improperly Charged as Direct Costs	5
A Capital Expenditure for Equipment Was Misclassified as Maintenance and Repairs	5
Related Facilities and Administrative Costs Were Unallowable	5
The University Did Not Always Provide Adequate Oversight	6
Estimate of Unallowable Costs	6
RECOMMENDATIONS	6
UNIVERSITY COMMENTS	6
OFFICE OF INSPECTOR GENERAL RESPONSE	7
APPENDIXES	
A: Related Office of Inspector General Reports	8
B: Audit Scope and Methodology	9
C: Statistical Sampling Methodology	12
D: Sample Results and Estimates	15
E: University Comments	16

INTRODUCTION

WHY WE DID THIS REVIEW

The Department of Health and Human Services (HHS) award administration rules require recipients of awards to ensure that costs charged to those awards are allowable under applicable Federal regulations.¹ The University of California, San Diego (the University), received significant funding from HHS awards, including funding from the American Recovery and Reinvestment Act (Recovery Act). In fiscal year 2010, the University received \$485.9 million from HHS awards and \$73.4 million from the Recovery Act. This review of the University's nonpayroll costs is part of a series of Office of Inspector General (OIG) reviews to determine whether selected colleges and universities claimed administrative and clerical costs in accordance with Federal requirements. We issued a separate report on our review of the University's payroll costs charged directly to HHS awards.² (See Appendix A for a list of related OIG reports.)

OBJECTIVE

Our objective was to determine whether the University claimed reimbursement for nonpayroll administrative and clerical costs charged directly to HHS awards in accordance with Federal regulations and applicable guidelines.

BACKGROUND

Federal Regulations for Determining Allowability of Costs

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 were allowable under the cost principles established in the Office of Management and Budget (OMB) Circular No. A-21 (2 CFR part 220, App. A).³ The costs charged to Federal awards must be supported with adequate documentation. In addition, the regulations governing the allowability of direct costs charged to Federal grants, contracts, and other agreements require that, to be allowable, a direct cost must be reasonable, be allocable, be treated consistently, and conform to any limitations or exclusions set forth in the cost principles.

¹ HHS administrative rules are incorporated in 45 CFR part 74, *Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial Organizations*, and provide that the allowability of costs incurred by institutions of higher education is determined in accordance with the provisions of 2 CFR part 220.

² *The University of California, San Diego, Generally Claimed Administrative and Clerical Payroll Costs Charged Directly to HHS Awards in Accordance With Federal Regulations* (A-09-12-01001), issued June 26, 2014.

³ The circular was relocated to 2 CFR part 220. Effective December 26, 2013, the cost principles in 2 CFR part 220 were superseded by 2 CFR part 200, subpart E. The cost principles in subpart E apply to new awards and to additional funding (funding increments) for existing awards made after December 26, 2014. Therefore, 2 CFR part 200 was not applicable to our review.

Consistent treatment of costs means that costs incurred for the same purpose, in like circumstances, must be treated uniformly either as direct costs or facilities and administrative (F&A) costs.⁴ Examples of direct costs include laboratory supplies, computer costs, travel costs, and specialized shop costs. Items such as office supplies, postage, local telephone costs, and memberships must normally be treated as F&A costs.⁵ The applicable portion of the F&A costs should be recovered through the F&A rates negotiated with the Federal Government.

University of California, San Diego

The University, located in La Jolla, California, is a publicly funded institution of higher education and 1 of the 10 campuses of the University of California system. Nonpayroll administrative and clerical costs are generally recorded in the University's financial system under the account category "Supplies and Expenses."⁶ From October 1, 2008, through September 30, 2010, the University claimed costs for "Supplies and Expenses" totaling approximately \$225 million.

University Award Administration

The University's Office of Contract and Grant Administration is responsible for issues and inquiries related to proposal development and preaward activities. The Office of Post Award Financial Services is responsible for project accounting, financial reporting, and effort certifications. This office certifies to funding agencies that award expenditures comply with award financial terms and conditions, including 2 CFR part 220, as well as University policies.

Principal investigators (PIs)⁷ and University departments are responsible for ensuring that all direct costs proposed and incurred meet the Federal and University requirements for proposing and charging of direct costs.

HOW WE CONDUCTED THIS REVIEW

Our review covered nonpayroll administrative and clerical costs of \$26,945,750 claimed by the University from October 1, 2008, through September 30, 2010. We limited our review to

⁴ Direct costs are "those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity ..." (2 CFR part 220, App. A, § D.1). F&A costs are "those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity" (2 CFR part 220, App. A, § E.1).

⁵ Educational institutions are reimbursed for F&A costs through a rate or rates negotiated with the Federal Government. The F&A rates are made up of two components: a facilities component and an administrative component. The administrative component is limited to 26 percent of modified total direct costs.

⁶ This category contains expenditure codes for items such as office supplies, communications, computer supplies, parking, maintenance and repairs, contractors and consultants, project-specific rental space, human subjects, and animal care costs.

⁷ The PI is the individual who has the appropriate level of authority and responsibility to direct the project or program supported by the award. The PI is accountable to the awarding agency for the proper conduct of the project or program, including the submission of all required reports.

nonpayroll administrative and clerical costs charged as direct costs to grants, contracts, and other agreements between the University and components of HHS, including the National Institutes of Health (NIH) and Public Health Service. To determine the allowability of these costs, we reviewed a stratified random sample of 142 nonpayroll administrative and clerical transactions totaling \$580,278. A small number of the sample transactions were charged to Recovery Act awards.

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 contains the details of our audit scope and methodology, Appendix C contains the details of our statistical sampling methodology, and Appendix D contains our sample results and estimates.

FINDINGS

The University did not always claim reimbursement for nonpayroll administrative and clerical costs charged directly to HHS awards in accordance with Federal regulations and applicable guidelines. Of the 142 sample transactions, 125 were allowable. However, 17 sample transactions, totaling \$56,375, were not allowable. Specifically, the University claimed (1) costs for temporary employees that were not adequately supported, (2) costs for goods and services that were not allocable to the HHS awards, (3) office supply costs that were improperly charged as direct costs, and (4) excess F&A costs for a capital expenditure misclassified as maintenance and repairs. In addition, the University claimed \$26,210 of unallowable F&A costs related to the unallowable direct nonpayroll costs.

The University claimed unallowable costs because it did not always provide adequate oversight of nonpayroll administrative and clerical costs charged directly by departments to HHS awards to ensure compliance with Federal regulations. On the basis of our sample results, we estimated that the University claimed at least \$202,401 in unallowable costs, consisting of \$148,803 in unallowable nonpayroll costs and \$53,598 in unallowable F&A costs related to the unallowable direct costs and the misclassification of a capital expenditure as maintenance and repairs.

THE UNIVERSITY CLAIMED UNALLOWABLE NONPAYROLL ADMINISTRATIVE AND CLERICAL COSTS

Costs for Temporary Employees Were Not Adequately Supported

Federal award recipients' accounting practices must provide for adequate documentation to support costs charged (2 CFR part 220, App. A, § A.1.e). The University of California's Business and Finance Bulletin A-47, section VI, and the University's Cost Accounting Standards Board Disclosure Statement (Disclosure Statement), Item No. 3.2.0, specify that the cost of services provided by a Service Enterprise/Center (recharge center) are charged directly to

applicable awards according to actual usage of the services on the basis of a schedule of rates or established methodology.⁸ The University's Policy and Procedure Manual 300-40 (the Manual) provides that a recharge center is a department or unit within an organization that provides goods or services to other departments or units within the organization; the costs charged directly to awards are called recharge costs. The Manual states that a recharge center is required to maintain records that substantiate the recharges and that the recharges are initiated when goods or services are provided.

For nine sample transactions, totaling \$14,939, the University charged to HHS awards Temporary Employment Services (TES) costs that were not adequately supported.⁹ The temporary employees' timesheets did not support the TES billing hours used to calculate the recharge costs. The following are examples:

- Timesheets recorded only the total hours worked, not the hours worked on each project. The University allocated the recharge costs to different projects using a predetermined allocation percentage based on budget. For example, a temporary service employee worked on multiple projects in which each project had a budgeted allocation percentage preprinted on the timesheet.
- A timesheet was not signed by the supervisor or other responsible official having first-hand knowledge of the actual hours worked on the project.

Costs for Goods and Services Were Not Allocable to HHS Awards

A cost is allocable to a sponsored agreement if it is incurred solely to advance the work under the sponsored agreement or it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods (2 CFR part 220, App. A, § C.4.a).

For five sample transactions, totaling \$5,527, the University charged costs for goods or services that were not allocable to the HHS awards:

- Two transactions were for publication costs for research that was conducted under other HHS-sponsored research that was also supported by another Federal agency.
- One transaction was for the reimbursement of an employee's purchase of a personal computer near the end of the HHS budget period for the training grant. The employee did not continue to work on the training grant after the end of the budget period.

⁸ The University's March 9, 2007, Disclosure Statement (which was submitted to the HHS Division of Cost Allocation), Item No. 3.2.0, identifies the various methodologies that the University uses for its recharge centers. The methodology applicable to our audit provides that all of the billings (i.e., recharges) are direct charges only, that the billing rate is based on historical and projected costs, and that the same billing rate is applied to all users.

⁹ TES, a recharge center, is the division of Human Resources at the University responsible for providing temporary staffing to departments.

- One transaction was for parking costs of guests who attended a Defense Advanced Research Projects Agency workshop.
- One transaction was determined by the University to be fraudulent.¹⁰

Office Supply Costs Were Improperly Charged as Direct Costs

Office supplies “shall normally be treated as F&A costs” (2 CFR part 220, App. A, § F.6.b(3)). In addition, the University guidance on charging nonpayroll direct vs. indirect costs states that general office supplies, including computer supplies (such as toner), are F&A costs.

For two sample transactions, totaling \$120, the University charged directly to the HHS awards the cost of office supplies that should have been treated as F&A costs. These supplies included copy paper, toner, and printer cartridges.

A Capital Expenditure for Equipment Was Misclassified as Maintenance and Repairs

A capital expenditure includes an expenditure for the acquisition cost of capital assets, such as equipment (2 CFR part 220, App. A, § J.18.a(1)). The acquisition cost for equipment includes the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is required (2 CFR part 220, App. A, § J.18.a(1)). In addition, the University of California’s Accounting Manual policy entitled *Capitalization of Property Plant and Equipment* states that the costs associated with the initial acquisition, preparation, and placement of the asset for use should be capitalized.

For one sample transaction, the University claimed excess F&A costs totaling \$19,505 because it misclassified a capital expenditure for equipment as a maintenance and repair cost. The University had charged to an HHS award \$35,789 for a maintenance and repair cost related to factory and site acceptance testing of special purpose equipment. This testing was for the preparation of the equipment for use; the cost was not incurred for the necessary maintenance and repair of the equipment. Because the cost was classified as maintenance and repairs instead of as a capitalized expenditure, the University claimed excess F&A costs of \$19,505.¹¹

Related Facilities and Administrative Costs Were Unallowable

For the 17 unallowable sample transactions, the University claimed \$26,210 of unallowable F&A costs related to the unallowable direct nonpayroll costs of \$56,375. To determine the amount of unallowable F&A costs claimed, we applied the University’s applicable F&A cost rate to the nonpayroll transaction amounts determined to be in error.

¹⁰ The University’s investigation disclosed that the PI’s University-issued credit card had been compromised by an unknown individual and determined the transaction for \$133 to be fraudulent. The credit card was canceled, and the University made an adjustment for the improper transaction during our fieldwork.

¹¹ The University’s negotiated F&A agreement states that equipment is to be excluded from the modified total direct costs for calculating the reimbursable amount of F&A costs.

THE UNIVERSITY DID NOT ALWAYS PROVIDE ADEQUATE OVERSIGHT

The University claimed unallowable costs because it did not always provide adequate oversight of nonpayroll administrative and clerical costs charged directly to HHS awards to ensure compliance with Federal regulations. The University largely leaves it to the discretion of its individual departments and PIs to ensure that the costs charged comply with those regulations. Without adequate oversight, the University cannot ensure that nonpayroll costs directly charged to HHS awards comply with Federal regulations and applicable guidelines.

ESTIMATE OF UNALLOWABLE COSTS

On the basis of our sample results, we estimated that the University claimed at least \$202,401 in unallowable costs, consisting of \$148,803 in unallowable nonpayroll costs and \$53,598 in unallowable F&A costs related to unallowable direct costs and misclassification of a capital expenditure as maintenance and repairs.

RECOMMENDATIONS

We recommend that the University:

- refund \$202,401 to the Federal Government,
- reclassify maintenance and repair costs as a capital expenditure, and
- enhance oversight of nonpayroll administrative and clerical costs charged directly to HHS awards to ensure compliance with Federal regulations.

UNIVERSITY COMMENTS

In written comments on our draft report, the University concurred with our second and third recommendations and provided information on actions that it had taken or planned to take to address our recommendations. The University stated that it recognized that the audit process had been very valuable in highlighting areas where oversight could be improved.

Regarding our first recommendation, the University concurred with our disallowances of eight sample transactions totaling \$27,519 and provided information on actions that it had taken or planned to take to refund the amounts associated with the sample transactions and the related F&A costs. However, the University did not explicitly address our estimated total refund amount.

Regarding our finding that the costs claimed for temporary employees were not adequately supported, the University did not concur with disallowances of 10 sample transactions:

- For one transaction in which the total hours reported on one timesheet were less than the hours used for recharging the costs of temporary employee services, the University stated that it appeared that the hours on the employee timesheet were calculated incorrectly in

the “Total” column. It stated that the actual calculation of the hours worked as reported each day equated to the number of hours on the invoice.

- For one transaction in which the timesheet of a temporary employee was unsigned, the University agreed that the timesheet was not signed by an authorized signer but stated that the effort expended was directly related to the Federal award. The University also stated that the Department had provided retroactive confirmation from the employee’s supervisor via a department certification.
- For eight transactions in which the recharge costs allocated to different projects used a predetermined allocation percentage based on budget and were not adequately supported, the University stated that these charges did not represent true recharges as indicated in OMB Circular No. A-21 (2 CFR part 220, App. A, § J.47.b).

The University acknowledged that the format of the timesheets used by temporary employees during this period did not allow for the entry of hours per project but stated that the allocation percentages initially budgeted were appropriate to the Federal awards and supported by the PI or supervisor’s first-hand knowledge of the temporary employees’ activity. The University stated that it had communicated to the OIG auditors that departments were well aware of procedures to change budgeted allocations, when necessary. The University also stated that when the supervisor signs a timesheet, the supervisor has the opportunity to review and revise the funding sources as needed.

The University attached supplemental information and documentation to its written comments to confirm its review of charges for temporary employees. Although the University strongly disagreed with our determination that these charges were unallowable, it stated that it recognized improvements could be made to the process for documenting temporary employees’ time charged to Federal awards contemporaneously. The University requested that we maintain confidentiality of the attachments because they related to individual sample items and employee data. The University’s comments, excluding the attachments, are included as Appendix E.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the supplemental information and documentation provided by the University for the 10 sample transactions, we allowed one of these transactions, which reduced the total number of unallowable nonpayroll transactions from 18 to 17. Accordingly, we reduced our estimated unallowable costs to \$202,401. We agree that, for the one sample transaction, the actual hours worked as recorded on a daily basis to the timesheet reconciled to the hours used for recharging the costs to the award. However, additional information provided by the University for the remaining unallowable transactions, either with its written comments or during our fieldwork, did not constitute sufficient documentation for us to conclude that the questioned costs were allowable. (Some of the documentation included retroactive certifications signed more than 3 years after the pay period). We removed the reference to 2 CFR part 220, App. A, § J.47.b, from our report and provided information on recharge centers from the University of California’s Business and Finance Bulletin A-47 and the University’s Manual and Disclosure Statement.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>The University of North Carolina at Chapel Hill Did Not Always Claim Selected Costs Charged Directly to Department of Health and Human Services Awards in Accordance With Federal Requirements</i>	<u>A-04-13-01024</u>	6/27/2014
<i>The University of California, San Diego, Generally Claimed Administrative and Clerical Payroll Costs Charged Directly to HHS Awards in Accordance With Federal Regulations</i>	<u>A-09-12-01001</u>	6/26/2014
<i>The University of South Florida Did Not Always Claim Costs in Accordance With Federal Regulations</i>	<u>A-04-12-01016</u>	4/25/2014
<i>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</i>	<u>A-07-11-06013</u>	6/7/2013
<i>Thomas Jefferson University Generally Claimed Selected Costs Charged Directly to Department of Health and Human Services Awards in Accordance With Federal Regulations</i>	<u>A-03-11-03300</u>	6/4/2013
<i>Review of Select Expenditures Claimed by The Research Foundation of the State University of New York, State University of New York at Stony Brook</i>	<u>A-02-11-02008</u>	8/28/2012
<i>Florida State University Did Not Always Claim Selected Costs Charged Directly to Department of Health and Human Services Awards in Accordance With Federal Regulations and National Institutes of Health Guidelines</i>	<u>A-04-11-01095</u>	7/19/2012
<i>Review of Administrative and Clerical Costs at The Ohio State University for the Period July 1, 2008, through June 30, 2010</i>	<u>A-05-11-00030</u>	12/13/2011
<i>Review of Select Expenditures Claimed by The Research Foundation of the State University of New York, State University of New York at Albany</i>	<u>A-02-11-02000</u>	10/13/2011
<i>Review of Administrative and Clerical Costs at Dartmouth College for Fiscal Years 2009 Through 2010</i>	<u>A-01-11-01500</u>	8/5/2011

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered nonpayroll administrative and clerical costs of \$26,945,750 claimed by the University from October 1, 2008, through September 30, 2010 (audit period). We limited our review to nonpayroll administrative and clerical costs charged as direct costs to grants, contracts, and other agreements between the University and components of HHS, including NIH and the Public Health Service. We did not evaluate those costs charged to other Federal Departments and agencies.

To determine the allowability of the nonpayroll administrative and clerical costs charged as direct costs to HHS awards, we reviewed a stratified random sample of 142 nonpayroll transactions totaling \$580,278. A small number of the sample transactions were charged to Recovery Act awards.

We limited our assessment of internal controls to the University's policies and procedures for charging nonpayroll administrative and clerical costs to HHS awards. We conducted our fieldwork at the University's offices in La Jolla, California.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal regulations and guidelines;
- reviewed the findings of prior OIG reviews of administrative and clerical costs claimed by colleges and universities;
- interviewed University officials in Contract and Grant Administration, Post Award Financial Services, Audit and Management Advisory Services, and the Financial Analysis Office to obtain an understanding of the identification and oversight of administrative and clerical costs;
- interviewed University department managers and fund managers to obtain an understanding of their oversight and monitoring of administrative and clerical costs;
- reviewed the University's policies and procedures related to the identification of and accounting for administrative and clerical costs;
- reviewed the University's March 9, 2007, Cost Accounting Standards Board Disclosure Statement submitted to the HHS Division of Cost Allocation;
- reviewed the University's chart of accounts and related descriptions;

- obtained a data extract from the University’s Financial Analysis Office containing total expenditures that the University charged to Federal awards for our audit period and reconciled the total expenditures with the University’s historical financial reports;
- obtained a data extract from the University’s Financial Analysis Office containing total operating ledger expenditures by account category for our audit period for HHS awards and reconciled the total expenditures with HHS award total expenditures included in the Federal award data extract;¹²
- created from the data extract a data file containing only nonpayroll transactions categorized as “Supplies and Expenses” that were charged directly to HHS awards for the audit period;
- removed all “Supplies and Expenses” transactions that were for NIH individual fellowship awards or equipment awards, had account codes for costs normally direct-charged (i.e., research-project-related),¹³ or had amounts that were zero, negative, or less than \$50 to arrive at our sampling frame of 59,020 nonpayroll administrative and clerical transactions, totaling \$26,945,750;
- used a stratified random sample consisting of 6 strata;
- selected and determined the allowability of 142 sample transactions;
- considered corresponding negative adjustments for an erroneous nonpayroll transaction if the University provided adequate supporting documentation for the adjustments;
- evaluated the 142 sample transactions on the basis of documentation provided by the University, such as notice of award, award application and budget, award progress report, purchase order, express card order and statement, vendor invoice, vendor email, approved recharge rates, recharge statements and supporting documentation, and information provided by the PI or department or both;
- computed the F&A costs related to the unallowable nonpayroll administrative and clerical transactions;¹⁴
- estimated the unallowable costs that were charged to HHS awards; and

¹² The data extract provided by the University’s Financial Analysis Office contained transactions for account categories such as salaries and wages, employee benefits, travel, and supplies and expenses charged directly to HHS awards.

¹³ Account codes determined to be for research-project-related costs included account codes for contractors and consultants, subcontracts, animal care costs, human subjects, and laboratory supplies.

¹⁴ We used direct nonpayroll costs to compute the amount of F&A costs charged to HHS awards. To determine the amount of unallowable F&A costs related to the unallowable direct nonpayroll costs, we applied the applicable F&A rate to the sample transaction amount determined to be in error.

- discussed our findings with University officials.

Appendix C contains the details of our statistical sampling methodology, and Appendix D contains our sample results and estimates.

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 C: STATISTICAL SAMPLING METHODOLOGY

POPULATION

The population consisted of 59,020 transactions for nonpayroll administrative and clerical costs that were \$50 or greater and were charged as direct costs to HHS components from October 1, 2008, through September 30, 2010.

SAMPLING FRAME

The University provided us with an Excel file that included all transactions categorized as “Supplies and Expenses” that were charged to HHS components from October 1, 2008, through September 30, 2010. The file contained 572,109 transactions totaling \$224,978,294.

To refine the sampling frame, we excluded transactions that:

- were for NIH individual fellowship awards, because these awards were not subject to the Federal regulations pertinent to our audit objective;
- were for equipment awards, because these awards were primarily associated with equipment purchases that were \$5,000 or greater (i.e., capitalized equipment);
- had account codes that are normally direct-charged (research-project-related), and
- had amounts that were zero, negative, or less than \$50.

After these adjustments, the sampling frame consisted of 59,020 nonpayroll administrative and clerical transactions that were \$50 or greater, totaling \$26,945,750.

SAMPLE UNIT

The sample unit was a transaction of \$50 or greater that was directly charged to grants, contracts, and other agreements with HHS components.

SAMPLE DESIGN

We used a stratified sample to evaluate the allowability of nonpayroll administrative and clerical transactions. We grouped the sample units in the sampling frame into six strata on the basis of the (1) level of potential risk (high or medium) that the transaction was inappropriately charged as a direct cost and (2) amount of the transaction. We considered a sample unit to be at high risk when the transaction was for an account code that the University identified as normally related to F&A costs. We considered all remaining sample units in the sampling frame that did not have an account code identified as normally related to F&A costs to be medium risk.

We placed the sample units into the six strata as follows:

- Stratum 1: all high-risk sample units with amounts less than or equal to \$1,000.
- Stratum 2: all high-risk sample units with amounts greater than \$1,000 and less than or equal to \$8,000.
- Stratum 3: all high-risk sample units with amounts greater than \$8,000.
- Stratum 4: all medium-risk sample units with amounts less than or equal to \$3,000.
- Stratum 5: all medium-risk sample units with amounts greater than \$3,000 and less than or equal to \$54,000.
- Stratum 6: all medium-risk sample units with amounts greater than \$54,000.

Table 1 shows the number of transactions and the amount of the payment for each stratum.

Table 1: Number of Transactions and Amount of Payment for Each Stratum in the Sampling Frame

Stratum	Number of Transactions	Amount of Payment
1	14,871	\$2,233,606
2	592	1,421,828
3	9	87,150
4	42,377	15,668,866
5	1,168	7,334,234
6	3	200,066
Total	59,020	\$26,945,750

SAMPLE SIZE

We randomly selected sample units for strata 1, 2, 4, and 5. We selected all sample units for strata 3 and 6. The total sample size was 142 transactions, as shown in Table 2.

Table 2: Sample Size of Each Stratum

Stratum	Number of Sample Units
1	30
2	40
3	9
4	30
5	30
6	3
Total	142

SOURCE OF RANDOM NUMBERS

We generated the random numbers for strata 1, 2, 4, and 5 using the OIG, Office of Audit Services (OAS), statistical software.

METHOD OF SELECTING SAMPLE ITEMS

We sequentially numbered the sample units in each stratum. After generating the random numbers for strata 1, 2, 4, and 5, we selected the corresponding frame items. For strata 3 and 6, we selected all of the sample items.

ESTIMATION METHODOLOGY

We used the OIG/OAS statistical software to estimate the total amount of unallowable nonpayroll transactions. We also estimated the total amount of unallowable F&A costs associated with the unallowable nonpayroll transactions.

APPENDIX D: SAMPLE RESULTS AND ESTIMATES

Table 3: Sample Results

Stratum	Frame Size	Value of Frame	Sample Size	Value of Sample	Number of Transactions With Errors	Value of Transactions With Errors	Value of Related F&A Costs
1	14,871	\$2,233,606	30	\$4,986	4	\$1,488	\$627
2	592	1,421,828	40	92,379	10	18,868	5,984
3	9	87,150	9	87,150	0	0	0
4	42,377	15,668,866	30	8,764	2	230	94
5	1,168	7,334,234	30	186,933	0	0	0
6	3	200,066	3	200,066	1	35,789	19,505
Total	59,020	\$26,945,750	142	\$580,278	17	\$56,375	\$26,210

Table 4: Estimated Value of Unallowable Nonpayroll Transactions and Related Unallowable F&A Costs
(Limits Calculated for a 90-Percent Confidence Interval)

	Unallowable Transactions	Unallowable F&A Costs
Point estimate	\$279,241	\$88,561
Lower limit	148,803 ¹⁵	53,598 ¹⁶
Upper limit	411,397	143,750

¹⁵ In accordance with OAS policy, we did not use the results from strata 1, 4, and 6 to calculate the estimated unallowable nonpayroll transactions. Instead, we added the actual unallowable costs from stratum 1 (\$1,488) and stratum 4 (\$230) to the lower limit (\$147,085), which resulted in an adjusted lower limit of \$148,803. We did not add the value of the transaction error in stratum 6 (\$35,789) to the lower limit because the error was a misclassification of an otherwise allowable cost, which resulted in excess F&A costs.

¹⁶ In accordance with OAS policy, we did not use the results from strata 1, 4, and 6 to calculate the estimated unallowable F&A costs related to the unallowable nonpayroll transactions. Instead, we added the actual unallowable F&A costs related to the unallowable nonpayroll costs from stratum 1 (\$627) and stratum 4 (\$94) and the excess F&A costs from stratum 6 (\$19,505) to the lower limit (\$33,372), which resulted in an adjusted lower limit of \$53,598.

APPENDIX E: UNIVERSITY COMMENTS

UNIVERSITY OF CALIFORNIA, SAN DIEGO

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AUDIT & MANAGEMENT ADVISORY SERVICES
TEL: (858) 534-3617
FAX: (858) 534-7682

9500 GILMAN DRIVE - 0919
LA JOLLA, CALIFORNIA 92093-0919

January 15, 2015

Lori A. Ahlstrand
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region IX
90 – 7th Street, Suite 3-650
San Francisco, CA 94103

Re: Report number: A-09-13-01003

Dear Ms. Ahlstrand:

University of California, San Diego (UCSD) provides its written response to the Department of Health and Human Services (DHHS) Office of Inspector General (OIG) November 19, 2014 draft report entitled *University of California, San Diego, Did Not Always Claim Nonpayroll Administrative and Clerical Costs Charged Directly to HHS Awards in Accordance with Federal Regulations*. We ask that the OIG maintain confidentiality of our transaction documentation and the supporting attachments, as they relate to individual sample items and employee data.

Thank you for the opportunity to respond to the findings that were identified in your audit. If you have any questions related to the responses provided, please contact me at 858-534-1334.

/David Meier/

David Meier
Director
Audit and Management Advisory Services
University of California, San Diego

University of California, San Diego – Response to Draft Audit Report

University of California, San Diego (University) submits these comments in response to the November 19, 2014 Department of Health and Human Services (DHHS) Office of Inspector General (OIG) draft report entitled *University of California, San Diego, Did Not Always Claim Nonpayroll Administrative and Clerical Costs Charged Directly to HHS Awards in Accordance with Federal Regulations* (OIG Draft Report).

The OIG made three (3) recommendations in its OIG Draft Report. Responses to each are provided below.

1. OIG RECOMMENDATION: UNIVERSITY SHOULD REFUND \$202,949 TO THE FEDERAL GOVERNMENT

The OIG sampled 142 nonpayroll transactions, finding that 18 transactions totaling \$56,396 were either unallowable or partially unallowable. Based on the OIG's statistical sampling plan, the agency estimates \$202,949 in unallowable costs.

We agree with eight of the 18 unallowable items, as noted below.

A. OIG FINDING #1 – COSTS FOR TEMPORARY EMPLOYEES WERE NOT ADEQUATELY SUPPORTED

RECOMMENDED ACTION:

Refund the Federal Government \$14,960 of unallowable administrative non-payroll costs plus associated indirect costs for 10 sample transactions.

University Response:

The University does not concur with the OIG's disallowance of the 10 transactions.

One transaction (OIG#S2_NP16) was disallowed because the timesheet of a temporary employee was unsigned. While the University agrees that the timesheet was not signed by an authorized signer, the effort expended was directly related to the federal award. Additionally, the Department provided retroactive confirmation from the temporary employee's supervisor via a Department Certification, which was previously provided to the OIG. The hours charged were allocable and appropriately charged to the federal award. Therefore, the transaction should not be disallowed.

Another transaction (OIG#S2_NP10) was disallowed because the OIG stated total hours reported on one timesheet were less than the hours used for recharging the costs of temporary employee services. The University does not agree with this statement. It appears that the hours on the employee timesheet were calculated incorrectly to be 47.25 in the "Total" column, but actual calculation of the hours worked as reported each day indicates a correct total of 47.75 hours. The 47.75 was the total invoiced to the Department. *Attachment A* compares the breakdown of the actual hours worked, which

equates to the number of hours on the invoice, not to the incorrectly totaled hours noted on the timesheet.

Eight transactions were disallowed because the OIG believes the recharge costs allocated to different projects used a predetermined allocation percentage based on budget and were not adequately supported. The OIG noted that the University's timesheet used at the time for temporary employees recorded total hours worked, and not the total to each project, and therefore the hours were allocated based on the budgeted allocation percentage. The OIG also cited A-21 J.47 and additional requirements for charges from recharge centers.

The University contends that these charges do not represent true recharges as indicated in A-21 J.47. A-21 J.47 defines Specialized Services as "the costs of services provided by highly complex or specialized facilities operated by the institution, such as computers, wind tunnels, and reactors." The temporary employee charges do not represent specialized services, rather general employee assistance. Therefore, the University's obligation is to ensure the charges are adequately documented, and allocable and allowable to the awards.

The University acknowledges that the format of the timesheets used by temporary employees during this period did not allow for entry of hours per each project. However, Department review procedures and information gathered during this review confirmed the allocation percentages initially budgeted were appropriate to the federal awards and supported by the Principal Investigator (PI) or supervisor's first-hand knowledge of the temporary employee's activity.

In most cases, the University was able to provide documentation which supported non-payroll expenses via records maintained in the ordinary course of business. In some cases, such as with these temporary employee charges, records were not maintained in the ordinary course of business to document the PI's confirmation of the budgeted allocation. In these situations, the University provided statements from the PIs/supervisors (Department Certification) which provided confirmation for the basis and amounts charged to federal award, and the allocation of the employee's time. We continue to believe that this documentation adequately supports these charges and benefit to the awards.

We also communicated to the OIG Auditors that departments were well aware of procedures to change the budgeted allocations, when necessary. When departments initially determine their need for a temporary employee, they work with Temporary Employment Services (TES) to find an employee with skills that fit their needs. The department considers the employee's duties and the amount of time each project will take in order to provide TES with the appropriate funding distribution to charge the temporary employee's time. The funding sources are reflected on each biweekly timesheet. When the supervisor signs the timesheet, they have the opportunity to review and revise the funding sources as needed, either in the "Comments" section or next to the printed funding sources. For example, as the University previously provided, the funding

distribution for the employee from OIG# S1_NP10 was changed prior to the sampled transaction. The employee's supervisor wrote the appropriate funding sources directly on the timesheet next to the original funding sources. TES made the change in their system, which was effective the beginning of that timesheet's pay period. For the disallowed items, no changes were made on the timesheets because the allocations were correct for the hours worked, as confirmed by the PI/supervisor in additional documentation provided by the University.

TES sends the department monthly invoices for each funding source, which breaks down the number of hours charged to the funding source by pay period. The invoices are another opportunity for the Department to review the hours worked and determine the accuracy and appropriateness of the hours on that funding source during the given period. As the departments noted in the previously-provided Department Certifications, supervisors were aware of the necessary steps to take if the employee's effort was not accurately reflected by the budgeted allocation, either via expense transfer or changing the allocation with TES. None of the sampled transactions were moved from the sampled awards because the distributions accurately reflected the employees' actual efforts.

In addition, we provide the attached supplemental information and documentation which confirms the Department review of the temporary employee charges on the financial ledger. Fund managers from each department prepare monthly fund reports for the PIs. Transactions are reviewed for reasonableness by the fund manager at the time of report preparation as well as at regularly scheduled meetings with the PI. The departmental review process assures that they were reviewed in a timely manner. *Attachment B* and *Attachment C* are provided as examples. While the reports vary in format, they serve the same purpose.

Attachment B from the Alzheimer's Disease Cooperative Study (ADCS) contains ledger reports for the relevant sampled transactions (OIG #S1 NP10 and S2 NP26). These reports were downloaded from FinancialLink and transactions were reviewed for reasonableness. They were provided to the PI and were used to complete the Financial Status Reports (FSR) sent to the awarding agency. This is evidence of contemporaneous department and PI review of these specific charges, which is further supported by the absence of any subsequent cost transfer.

Attachment C from the Cancer Center (CC) contains similar PI fund reports for the relevant sampled transactions (OIG #S2 NP4 and S2 NP23). Because the reports are not time-stamped, we are also providing the file properties which show the creation dates. CC fund managers prepare monthly fund reports using ledger reports. Transactions are reviewed and then inputted into the summarized fund reports. Completed fund reports are presented to the CC Business Office Director and the Department Business Officer for further review before providing them to the PIs. Additionally, the fund managers meet with the PIs on a regular basis to go over the reports. With this process, the sampled transactions were contemporaneously verified multiple times, and are further supported by the absence of any subsequent cost transfer.

Although we could not locate PI reports for the four sampled transactions from the Pediatrics department (OIG# S2 NP5, S2 NP9, S2 NP19, and S2 NP31) due to turnover, the Pediatrics fund managers also prepared monthly summary fund reports for their PIs. The PIs of the sampled transactions were unique because, at the time of the transactions, they had their own project coordinators who managed their funds. One project coordinator only managed the funds of that PI while the other managed the funds of three PIs. This allowed for concentrated efforts, ensuring the funds were adequately monitored, and transactions were reviewed for appropriateness.

Although the University strongly disagrees with the OIG's preliminary determination that these charges are unallowable, we recognize that improvements can be made to the process for documenting temporary employee time charged to federal awards contemporaneously. TES has since developed an online timekeeping system – TES Online Pay System (TOPS). Temporary employees use TOPS to enter the time worked during each pay period, while the responsible supervisor approves the employee's time. The approval screen for timesheets now includes the following statement underneath the "Approve & Send to HR" button:

"Approval affirms that hours reported reflect actual effort performed by the funding source, in the percentages indicated on the timesheet. Please contact the TES office at (858) 534-4604 if the funding source(s) or allocation between multiple funds needs to be reassigned."

The University also plans to conduct an internal audit of Temporary Employment Services' timekeeping procedures and TOPS as a result of the DHHS-OIG audit. We will look at the internal controls and enhance the system to provide more sufficient documentation and support in accordance with federal guidelines. We are confident these processes will provide better contemporaneous documentation of the PI/supervisor review going forward, and will be in conformance with the new Uniform Guidance (2 CFR 200).

B. OIG FINDING #2 – COSTS FOR GOODS AND SERVICES WERE NOT ALLOCABLE TO HHS AWARDS

RECOMMENDED ACTION:

Refund the Federal Government \$5,527 of unallowable administrative non-payroll costs plus associated indirect costs for five sample transactions.

University Response:

The University concurs with the disallowance of these five sample transactions which were determined to be not allocable to the federal awards. One item (OIG #S4_NP28) has already been reversed off the award by the Department (*Attachment D-1*), and a revised Federal Financial Report (FFR) was provided to the National Institutes of Health (NIH) (*Attachment D-2*). As part of that process, NIH requested, and UCSD paid, a refund to the NIH for the direct and indirect costs related to this transaction (*Attachment D-3*). The total amount of the refund was \$410.48, consisting of the \$132.88 from the

sampled item, the \$137.17 for one other fraudulent transaction, and the related indirect costs. We agree to refund the Federal Government \$5,394 for the remaining four unallowable administrative non-payroll costs plus associated indirect costs.

C. OIG FINDING #3 – OFFICE SUPPLY COSTS WERE IMPROPERLY CHARGED AS DIRECT COSTS

RECOMMENDED ACTION:

Refund the Federal Government \$120 of unallowable administrative non-payroll costs plus associated indirect costs for two sample transactions.

University Response:

The University concurs with this disallowance for two instances of office supply costs which were improperly charged to federal awards. We agree to refund the Federal Government \$120 plus associated indirect costs for the two transactions.

D. OIG FINDING #4 – A CAPITAL EXPENDITURE FOR EQUIPMENT WAS MISCLASSIFIED AS MAINTENANCE AND REPAIRS

RECOMMENDED ACTION:

Refund the Federal Government \$19,505 in excess F&A costs claimed due to the misclassification of a capital expenditure for equipment as maintenance and repairs.

University Response:

The University concurs with the disallowance related to the misclassification of a portion of an equipment expense. We agree to refund the Federal Government \$19,505 of unallowable F&A costs.

Based on the above, the University calculates a total disallowance of \$27,519 (\$5,514 direct costs plus \$22,005 indirect costs).

2. OIG RECOMMENDATION: RECLASSIFY MAINTENANCE AND REPAIR COSTS AS A CAPITAL EXPENDITURE

University Response:

The University concurs with the recommendation to reclassify maintenance and repair costs as a capital expenditure. Steps have already been initiated between the relevant department and the Office of Post Award Financial Services to reclassify the portion of this expenditure disallowed by the OIG.

3. OIG RECOMMENDATION: ENHANCE OVERSIGHT OF NONPAYROLL ADMINISTRATIVE AND CLERICAL COSTS CHARGED DIRECTLY TO HHS AWARDS TO ENSURE COMPLIANCE WITH FEDERAL REGULATIONS

University Response:

The University agrees to enhance oversight of nonpayroll administrative and clerical costs directly charged to federal awards. While we continue to disagree on the amount of the disallowance, we recognize that this audit process has been very valuable in highlighting areas where oversight could be improved. We feel this is particularly important in light of the new Federal Register Office of Management and Budget Uniform Guidance. The University will communicate direct charging guidelines with the appropriate departments impacted directly by this audit. We will also incorporate these principles into additional communications and trainings to the campus community.