

**Memorandum**

Date JAN 12 1994

From June Gibbs Brown
Inspector General *June G Brown*

Subject Summary Report on Audits of Recharge Centers at 12 Universities
(A-09-92-04020)

To Kenneth S. Apfel
Assistant Secretary for
Management and Budget

Attached are two copies of the United States Department of Health and Human Services (HHS), Office of Inspector General's (OIG) report, entitled, "Summary Report of Audits of Recharge Centers at 12 Universities." This report summarizes the results of audits of specialized service funds (recharge centers) at 12 universities. The OIG performed the reviews at 12 large research universities located throughout the United States for which HHS has audit cognizance. The reviews were performed as part of our recurring audits at colleges and universities.

The individual reviews identified a total of \$3.2 million in overcharges to the Federal Government and related indirect costs. We found that some universities:

- accumulated surplus fund balances and deficits and did not adjust related billing rates accordingly;
- included duplicate or unallowable costs in the calculation of billing rates;
- included recharge costs in the calculation of indirect cost rates;
- used funds of recharge center accounts for unrelated purposes; and
- billed some users at reduced rates.

Recharge centers at universities operate as in-house enterprises and are used to finance, account for, and report upon the provision of goods and services to individual users or other operating units. These centers function as nonprofit businesses, funding operations through fees from users. The costs incurred for providing goods and services are recharged to users, including federally sponsored agreements, based on established billing rates and actual services provided. Costs of activities of recharge centers are separate from and not to be included in the general indirect cost rate of an institution. The Office of Management and Budget (OMB) Circular A-21 requires billing rates to be

based on actual costs and designed to recover the aggregate cost of a good or service over a long-term period. Billing rates should be reviewed periodically for consistency with the long-term plan, and adjusted if necessary.

We believe that these overcharges primarily resulted because universities did not: (1) establish or adhere to policies and procedures for recharge centers; and (2) maintain adequate accounting systems and records. Specifically, universities did not analyze and adjust billing rates, conduct annual cost studies, or monitor recharge centers on a regular basis. Furthermore, OMB Circular A-21 does not provide specific instructions for when and how to adjust for surpluses and deficits in fund balances.

We recommend that universities develop and implement policies consistent with OMB Circular A-21 regarding recharge centers, and that HHS' Division of Cost Policy and Oversight work with OMB to revise OMB Circular A-21 to ensure that criteria related to the financial operation of recharge centers is clear. The OIG has current plans to work with HHS' Division of Cost Allocation to enlist universities to participate in self-reviews to strengthen financial management of recharge centers. The Assistant Secretary for Management and Budget has generally concurred with our recommendations.

We would appreciate your views and the status of any further actions taken or contemplated on our recommendations within the next 60 days. Any questions or further comments on any aspect of the report are welcome. Please call me or have your staff contact Michael R. Hill, Assistant Inspector General for Public Health Service Audits, at 301-443-3582.

To facilitate identification, please refer to Common Identification Number A-09-93-04020 on all correspondence relating to this report.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**SUMMARY REPORT ON AUDITS OF
RECHARGE CENTERS AT 12
UNIVERSITIES**

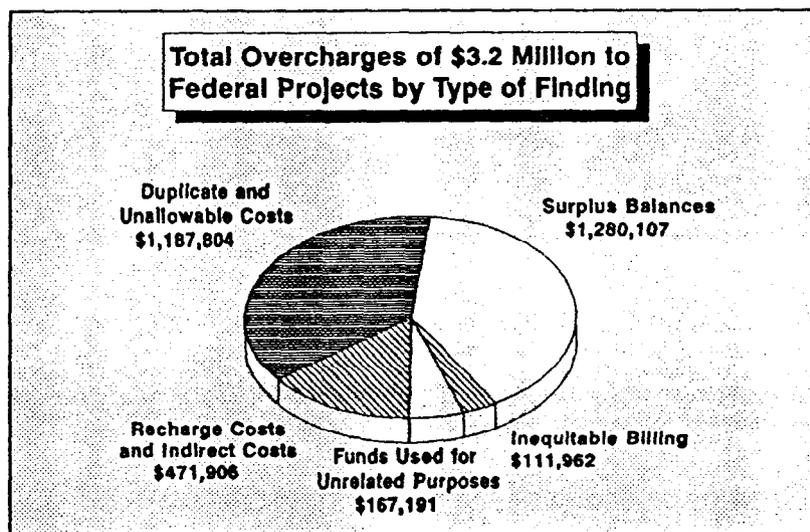


JANUARY 1994 A-09-92-04020

EXECUTIVE SUMMARY

Recharge centers at universities, also known as specialized service facilities or internal service centers, operate as in-house enterprises that provide goods and services to individual users or other operating units. These centers function as nonprofit businesses, funding operations through fees from users. The costs of providing goods and services are recharged to users, including federally sponsored agreements, based on established billing rates and actual usage of services. Costs of activities of recharge centers are separate from and not to be included in the general indirect cost rate of an institution. The Office of Management and Budget (OMB) Circular A-21 requires billing rates to be based on actual costs designed to recover the aggregate cost of a good or service over a long-term period. Rates should be reviewed periodically for consistency with the long-term plan and adjusted if necessary.

To determine whether recharge centers at universities complied with related OMB Circular A-21 regulations, we summarized the results of reviews conducted at 12 universities where audit cognizance was assigned to the Department of Health and Human Services (HHS). Although we were not able to calculate the Federal share of all identified audit adjustments, we identified \$3.2 million of overcharges to Federal research and related indirect costs for the following areas:



Significant issues related to each of the five areas include, but are not limited to, the following examples:

- Six universities accumulated \$6.6 million in surplus funds related to recharge centers. Five of the universities did not analyze and adjust their billing rates resulting in \$1,245,883 in

overcharges, and two universities did not credit recharge center accounts by \$34,224 in earned interest on excess fund balances;

- One university improperly classified \$729,406 in inventory as an expense. The inventory was not consumed during the year of purchase, resulting in overcharges to Federal research of \$722,179 in unallowable costs;
- One university improperly included surpluses and deficits of recharge centers in the calculation of indirect cost rates. By including the net deficit of \$830,597 in the calculation of its indirect costs, the university overcharged federally sponsored projects by \$432,405 over a 3-year period;
- Four universities inappropriately used \$3.5 million of surplus funds for unrelated purposes such as supplementing an athletic department's funds, developing an accounting system, and renovating academic offices. The Federal share of transferred funds was \$167,191 for three universities where data was available; and
- One university used inequitable billing practices by charging inconsistent billing rates to users of computer services. By fully subsidizing staff and students for \$23,247,203 in similar services, Federal research was overcharged by \$111,962.

We believe that these overcharges primarily resulted because universities did not: (1) establish or adhere to policies and procedures for recharge centers; and (2) maintain adequate accounting systems and records. Specifically, universities did not analyze and adjust billing rates, conduct annual cost studies, or monitor recharge centers on a regular basis. Furthermore, OMB Circular A-21 does not provide specific instructions for when and how to adjust for surpluses and deficits in fund balances.

The Deputy Assistant Secretary for Grants and Acquisition Management (DASGAM) agreed with our recommendation to work with OMB to revise OMB Circular A-21 to ensure that criteria related to the financial operation of recharge centers is clear.

TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	i
BACKGROUND	1
OMB Circular A-21.....	1
OMB Circular A-133.....	2
OMB Circular A-110.....	3
OMB Circular A-87.....	3
OBJECTIVES, SCOPE AND METHODOLOGY	4
FINDINGS AND RECOMMENDATIONS	7
Surplus Fund Balances.....	8
Duplicate and Unallowable Costs.....	10
Recharge Costs and Indirect Costs.....	13
Funds Used for Unrelated Purposes.....	14
Inequitable Billing.....	15
University and OIG Comments on Significant Issues.....	16
Summary of Causes.....	18
Recommendations.....	24
Comments From the Deputy Assistant Secretary for Grants and Acquisition Management and OIG Response.....	26
APPENDIX A - List of Individual Reports on Universities Reviewed	
APPENDIX B - Overcharges to Federal Projects by Finding and University	
APPENDIX C - Recharge Centers Reviewed at Each University	
APPENDIX D - Comments from the Deputy Assistant Secretary for Grants and Acquisition Management	

BACKGROUND

Recharge centers at universities, also known as specialized service facilities or internal service centers, operate as in-house enterprises that provide goods and services to individual users or other operating units. These centers function as nonprofit businesses, funding operations through fees from users. In some instances, centers are established to provide specialized services to a few users. In other instances, recharge centers are used as a means to provide commonly used goods and services. The centers typically include motor pools, telecommunications, computer centers, supply stores, animal care facilities and other specialized services. Some universities have established as many as 350 recharge centers to meet the demand for services.

Recharge centers charge users, including federally sponsored agreements such as research grants and contracts, based on established billing rates and actual use of services. Generally, billing rates are calculated by dividing budgeted costs for providing a service by the projected number of services provided during the same period. Amounts billed as recharged costs normally consist of direct costs of the recharge center and the allocable share of indirect costs.

OMB Circular A-21

The OMB Circular A-21, "Cost Principles for Educational Institutions," provides universities with principles for determining direct and indirect costs applicable to research and other programs funded by federally sponsored agreements. The accounting practices of universities must support the accumulation of costs as required by the principles, and must provide adequate documentation to support costs charged to sponsored agreements.

The OMB Circular A-21, section J44 on specialized service facilities, states that:

"a. The costs of institutional services involving the use of highly complex or specialized facilities such as electronic computers, wind tunnels, and reactors are allowable, provided the charge for the service meets the conditions of b. through e. below.

"b. The cost of each service normally shall consist of both its direct costs and its allocable share of indirect costs with deductions for appropriate income or federal financing.

"c. The cost of such institutional services when material in amount will be charged directly to users, including sponsored agreements based on actual use of the services and a schedule of rates that does not discriminate between federally and nonfederally supported activities of the institution, including use by the institution for internal purposes. Charges for the use of specialized facilities should be designed to recover not more than the aggregate cost of the services over a long-term period agreed to by the institution and the cognizant federal agency. Accordingly, it is not necessary that the rates charged for services be equal to the cost of providing those services during any one fiscal year as long as rates are reviewed periodically for consistency with the long-term plan and adjusted if necessary.

"d. Where the costs incurred for such institutional services are not material, they may be allocated as indirect costs. Such arrangements must be agreed to by the institution and the cognizant federal agency.

"e. Where it is in the best interest of the government and the institution to establish alternative costing arrangements, such arrangements may be worked out with the cognizant federal agency."

OMB Circular
A-133

The OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions," issued on March 8, 1990, provides guidelines to independent auditors who perform organizationwide financial and compliance audits of educational institutions. The independent auditor is required to integrate compliance auditing requirements of various Federal programs with the analysis of the organization's internal control structure and audit of the financial statements. The OMB also issued a Compliance Supplement to OMB Circular A-133, dated October 1991, which provides guidance on conducting the compliance aspects of the audits of educational institutions and other nonprofit organizations that receive Federal funds.

General requirement, "Allowable Costs/Cost Principles," of the Compliance Supplement provides specific audit procedures for auditing billing rates for specialized service facilities. The Compliance Supplement states that: (1) rate bases should include all university users and be treated in a consistent manner; (2) billing rates should be adjusted to eliminate profits and unallowable costs; (3) the Federal Government should be refunded its fair share of any

amounts which have been transferred out of the fund; (4) methods used to adjust for accumulated over/underrecoveries should be distributed in reasonable proportion to the same users as were originally billed for the services which created the accumulation; and (5) cognizant negotiators, while responsible for such rate activities, may actually negotiate and publish the rates themselves, or merely negotiate the rate setting methodologies or resolve problems which arise.

**OMB Circular
A-110**

The OMB Circular A-110, "Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Non-Profit Organizations," promulgates standards for obtaining consistency and uniformity among Federal agencies in the administration of agreements with public and private institutions of higher education and nonprofit organizations. The OMB Circular A-133, which was effective January 1, 1990, supersedes Paragraph F on accounting and auditing requirements in OMB Circular A-110.

**OMB Circular
A-87**

The OMB Circular A-87, "Cost Principles for State and Local Governments," also provides principles for determining costs applicable to Federal programs which are operated by State and local governments. Although these principles do not apply to publically financed educational institutions subject to OMB Circular A-21, proposed revisions to Circular A-87 do provide detailed guidance on operating, accounting, and reporting on the activities of governmental internal service centers. These aspects of governmental internal service centers are similar to the operations of university recharge centers.

Proposed revisions to OMB Circular A-87 state that internal service activities must be accounted for and reported in individual accounts in order to properly account for revenue, expense, and profit or loss. These revisions also permit a reasonable working capital reserve to cover 60 days of cash expenditures. In terms of distributing allowable costs of services to departments, these same revisions allow costs to be billed or allocated to users. When allowable costs associated with internal service funds are billed, proposed revisions to OMB Circular A-87 require the annual submission of the following documentation to the cognizant agency: (1) a brief description of each service offered; (2) a fund balance sheet; (3) a revenue/expenditure statement; (4) a listing of all transfers into and out of the fund; (5) a description of the procedures used to charge costs to users, including how billing rates are determined; (6) a schedule of current billing rates; and (7) a schedule comparing the full revenue (including imputed revenue) generated by the service to

the allowable cost of the service, with an explanation of how variances will be handled. The revisions also state that revenues should consist of all revenue generated by the service, including unbilled and uncollected revenue. If some users were not billed for the services or were not billed at the full rate, revenue associated with these users should be imputed.

OBJECTIVES, SCOPE AND METHODOLOGY

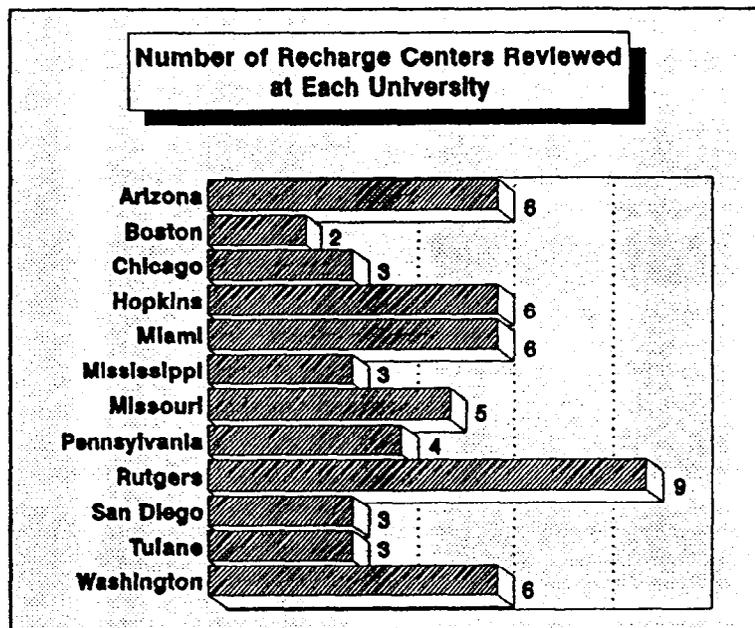
Our review was conducted in accordance with generally accepted government auditing standards. The primary objectives of our review were to: (1) determine whether selected universities complied with the principles of OMB Circulars A-21 and A-133 and with good management practices regarding the treatment of recharge centers; and (2) provide recommendations to the Assistant Secretary for Management and Budget for improving the administration of recharge centers at all universities. Specifically, we determined whether universities adequately monitored recharge centers, adjusted billing rates periodically, billed all users equitably, excluded unallowable costs from the calculation of billing rates, and earned investment income on excess cash accumulated in recharge center accounts. Where guidance was not provided in OMB Circulars A-21 or A-133, we used the principles in OMB Circular A-87 to identify criteria of good management practices.

To accomplish our objectives, we used the "Audit Guide for Review of Recharge Center Billing Rates at Colleges and Universities" at 12 judgmentally selected universities that received Federal funds between Calendar Years 1987 through 1991. We judgmentally selected our sample based on the amount of Federal research funding and to obtain a geographic cross section for the Nation. Eight of the universities were in the top 50 educational institutions receiving Federal funds and 3 universities were in the second 50. The National Science Foundation ranked the universities in descending order based on funding received by the Federal Government.

The 12 universities reviewed included: University of Arizona, Boston University, University of Chicago, Johns Hopkins University, University of Miami, University of Mississippi, University of Missouri, University of Pennsylvania, Rutgers University, University of California, San Diego, Tulane University, and University of Washington. (For a detailed listing of audit reports issued on the 12 selected universities reviewed, see Appendix A.)

We judgmentally selected 56 recharge centers from the 12 selected universities shown below based on centers with: (1) charges to Federal grants and contracts; (2) surplus balances existing over a period of time; or (3) unusual variances or transactions affecting the outcome of surplus or deficit fund balances. We also considered the results of OMB Circulars A-110 and A-133 reports conducted by the universities' internal and/or external auditors. Generally, we limited our review to recharge centers that provided goods or services to all university and nonuniversity users. This included services such as graphics and printing, machine shops, chemistry storehouses, and computer centers. We did not review departmental service units which generally provide services to a particular department, college or school. (For a detailed listing of recharge centers reviewed, see Appendix C.)

The HHS' Office of Inspector General (OIG) Office of Audit Services conducted reviews of 56 recharge centers at 12 universities listed in the chart below:



We limited our review of the internal control structure at each university to controls over: (1) establishing billing rates; (2) reviewing and adjusting user billing rates; (3) excluding unallowable costs from billing rates; and (4) excluding recharge center costs from indirect costs charged to Federal grants and contracts. Accordingly, we interviewed recharge center personnel, and analyzed rate proposals and supporting documentation such as price lists, financial statements, and depreciation schedules.

Other than for the issues discussed in the **FINDINGS AND RECOMMENDATIONS** section of this report, the auditors found no instances of noncompliance with applicable laws and regulations. For those items not tested, nothing came to our attention to cause us to believe that untested items would produce different results.

To summarize the results of the reviews at the 12 universities, we analyzed data obtained from the audit reports. We also contacted OIG regional auditors and university internal auditors to obtain detailed information which may not have been included in the reports. We reviewed OMB Circulars A-21, A-87 and A-110, and the Compliance Supplement for OMB Circular A-133. We also reviewed the Division of Cost Allocation's (DCA) "Guide for Long Form University Indirect Cost Proposals." We conducted interviews with certain DCA officials to discuss the audit results and their preferred methodology for setting and adjusting recharge billing rates. We evaluated the best practices at various universities for the operation of recharge centers and comments universities made to specific audit reports. In addition, we analyzed other academic publications related to internal service centers.

Based on our analysis of the 12 audit reports, we elected to focus our summary primarily on the issues surrounding surplus fund balances for recharge centers. Although we did note deficiencies in our limited review of deficit balances, we believed it was in the best interest of the Federal Government to focus primarily on centers that experienced surplus balances over a period of time. According to our analysis of OMB Circulars A-21 and A-133 and commonly used practices within the Federal research community, we concluded that adjustments for a surplus or deficit fund balance incurred by a recharge center should be made to the same billing rate which created the excess or shortage.

The work at the individual universities was performed at various times between August 1991 and December 1992. The results of the 12 audits were reviewed and summarized in the OIG Regional Office in San Francisco, California, during November 1992, to February 1993.

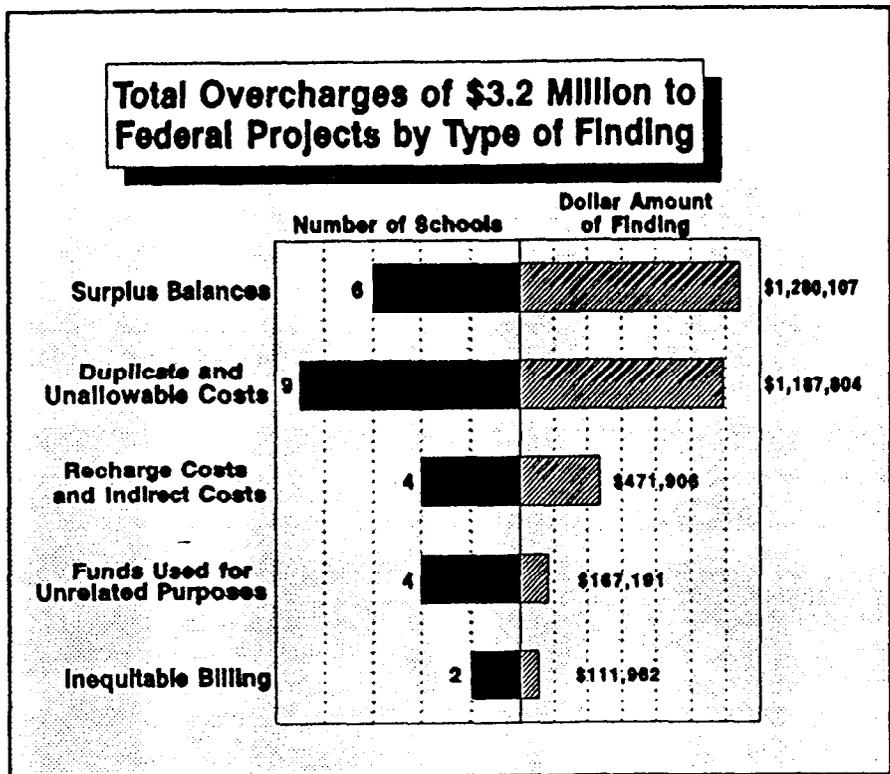
In certain instances, OIG auditors identified gross adjustments which a university made as a result of our audits, but did not calculate the Federal share of the savings. The OIG reports also identified recommended financial adjustments (questioned costs) and amounts recovered based on adjustments made in response to our audits. The regional OIG reports on each university show adjustments by recharge centers while the consolidated report summarizes

adjustments by the type of finding (see Appendix B for a summary of adjustments by university and type of finding). This report summarizes the financial findings of the 12 universities reviewed, but does not include a projected estimate of financial findings for all research universities nationwide. The DASGAM's comments are summarized in the **FINDINGS AND RECOMMENDATIONS** section and appended in their entirety to this report (see **APPENDIX D**).

FINDINGS AND RECOMMENDATIONS

During our review, we found that there was a wide variation in the operation of recharge centers among the 12 universities. Ten universities had formal written policies and procedures which were generally consistent with OMB Circular A-21, while two had not established any formal policies and procedures for the financial operation of recharge centers. However, 9 of the 10 universities had adequate policies and procedures, but did not always analyze and adjust their billing rates as required by OMB Circular A-21. Although the OIG review at the University of Pennsylvania found that recharge centers were being operated in accordance with OMB Circular A-21, some recharge centers at the other 11 universities did not maintain adequate accounting systems and records to allow for the: (1) development of billing rates based on actual costs; or (2) identification of surplus or deficit fund balances. We believe that these weaknesses in the internal control structure resulted in some university recharge centers: (1) accumulating surplus fund balances and deficits that were not adjusted for in subsequent billing rates; (2) including duplicate or unallowable costs in the calculation of billing rates; (3) including recharge costs in the calculation of indirect cost rates; (4) using funds of recharge center accounts for unrelated purposes; and/or (5) billing some users at reduced rates.

These practices caused billing rates to be overstated, resulting in overcharges of \$3.2 million to the Federal Government. We believe that these overcharges primarily resulted because universities did not: (1) establish or adhere to policies and procedures for recharge centers; and (2) maintain adequate accounting systems and records. Specifically, universities did not analyze and adjust billing rates, conduct annual cost studies, or monitor recharge centers on a regular basis. Furthermore, OMB Circular A-21 does not provide specific instructions for when and how to adjust for surpluses and deficits in fund balances.



The OMB Circular A-21, section J44, "Specialized Service Facilities," contains most of the requirements applicable to recharge centers; however, other requirements applicable to recharge centers are also contained in the Compliance Supplement to OMB Circular A-133. We recommend that HHS' Division of Cost Policy and Oversight work with OMB to revise OMB Circular A-21 to ensure that criteria related to the financial operation of recharge centers is clear. We recommend that a separate, comprehensive section be added to OMB Circular A-21 which promulgates the requirements for the financial operation of recharge centers. The Division of Cost Policy and Oversight concurred with all of the recommendations presented in the report. The comments are included in their entirety in APPENDIX D.

SURPLUS FUND BALANCES

Our review disclosed that 6 of the 12 universities accumulated \$6.6 million in surplus fund balances for recharge center accounts. Surplus fund balances occurred when amounts billed for services exceeded the cost for providing such services. The surplus balances accumulated by the six universities continued as the result of inadequate monitoring of recharge centers to ensure that user billing rates were analyzed and adjusted to eliminate accumulated

surpluses. As a result, federally sponsored research was overcharged by \$1,280,107. This overcharge consisted of \$857,359 in direct costs, \$388,524 in related indirect costs, as well as \$34,224 in earned interest on the surplus fund balances that was not credited to recharge center accounts. Furthermore, some of the universities incorrectly used surplus fund balances as discussed in the section of the report **FUNDS USED FOR UNRELATED PURPOSES**.

Annual Reviews and Adjustments of Billing Rates

Although most universities established policies and procedures on recharge center billing rates, we found that some did not analyze year-end fund balances on an annual basis nor adjust the billing rates to eliminate surpluses. Section J44.c of OMB Circular A-21 states that universities are not allowed to recover more than the aggregate costs of recharge center services and requires rates to be reviewed periodically and adjusted if necessary. Specifically, OMB Circular A-21 states that:

"Charges...should be designed to recover not more than the aggregate cost of the services over a long-term period agreed to by the institution and the cognizant Federal agency.

"...It is not necessary that the rates charged for services be equal to the cost of providing those services during any one [sic] year as long as rates are reviewed periodically (emphasis added) for consistency with the long-term plan and adjusted if necessary."

We found some variations regarding the interpretation of "periodically." For our purposes, we reported surpluses for recharge centers which were clearly accumulating excess balances. For example, in a review of three recharge centers at one university, we analyzed the ending balances over a 10-year period. The auditors noted that, for some of the centers, the fund balances had been relatively stable until 1987. After this period of time, the fund surplus balances began to increase steadily without any rate adjustments. Another university stated that it used a rolling 5-year operating cycle for recharge centers while other universities with similar costs and services did not operate on a 5-year cycle.

Interest Earned on Fund Balances

Generally, universities earn income on surplus funds by investing in short-term securities. For those recharge centers that maintained surplus balances, we found that interest earnings were not always credited to the appropriate centers. Two of the 12 universities earned \$34,224 of interest on surplus balances of recharge centers.

Section J44.b of OMB Circular A-21 states that the cost of each service shall consist of direct and related indirect costs with deductions for appropriate income as described in section C5. Section C5.a states that "*applicable credits*" refer to those receipts that operate to offset or reduce cost items. "*Specifically, the concept of netting such credit items against related expenditures should be applied by the institution in determining the rates or amounts to be charged to sponsored agreements for services rendered....*"

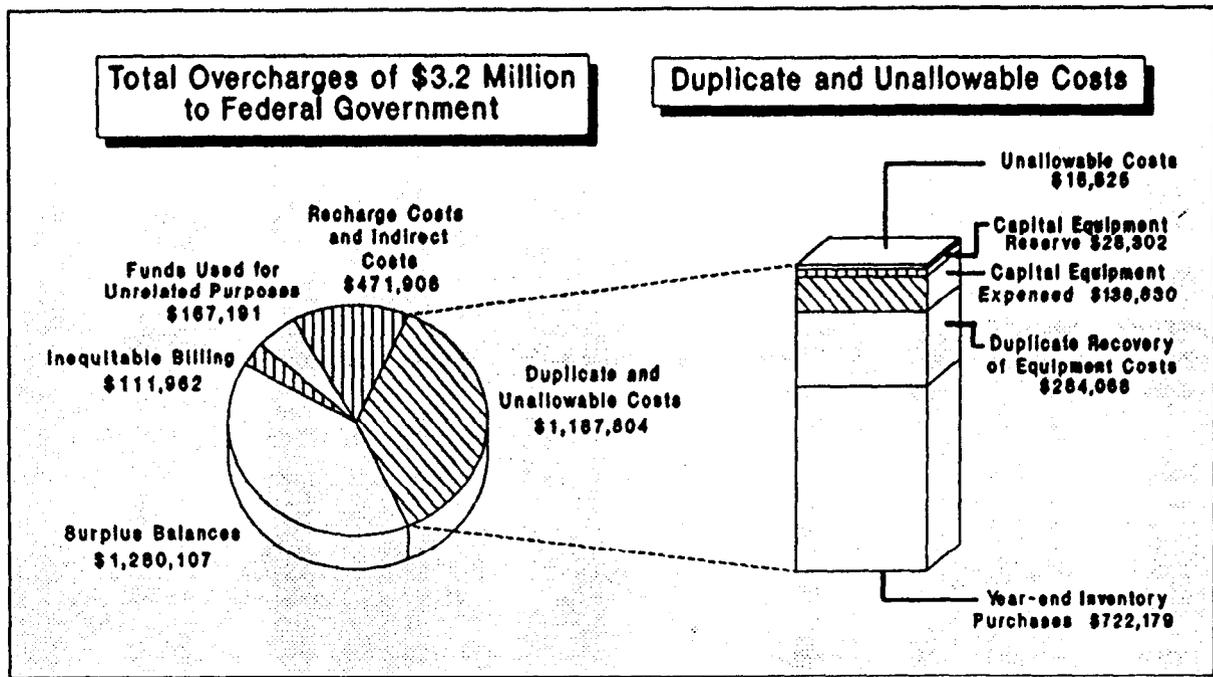
Consequently, the \$34,224 in interest earned from investing the surplus fund balances represented receipts that should have been used to adjust billing rates charged by recharge centers. By not adjusting the appropriate billing rate(s), recharge centers overcharged users and Federal research.

DUPLICATE AND UNALLOWABLE COSTS

We found that 9 of the 12 universities included duplicate or unallowable costs in the calculation of recharge center billing rates. For example, one university classified \$722,179 in year-end purchases as expenditures rather than inventory, thus reducing surplus cash and the ending fund balance. We also noted that the nine universities: (1) recovered duplicate equipment costs; (2) expensed equipment rather than capitalizing and depreciating it; (3) accumulated reserves for future capital expenditures; and/or (4) included entertainment, interest and bad debt expenses in the calculation of billing rates. These practices resulted in overcharges to Federal agreements of \$1,187,804 during the period June 1, 1987 through June 30, 1991.

Year-End Inventory Purchases

A recharge center at one university reported a deficit balance when it improperly classified the purchase of \$729,406 in inventory as expenditures. Our review disclosed that three large purchases of inventory were made at or near fiscal year (FY) end and resulted in overcharges of \$722,179 to the Federal Government. According to university officials, these purchases were made to take advantage of special discounts and to arrange for an uninterrupted supply of goods over an extended period of time. However, the purchases were not needed as part of the normal operation of the recharge center and were not sold or consumed during the year of purchase. If the \$729,406 in purchases had been properly classified as inventory, the recharge center would have had a surplus balance at year-end.



Section C4.a of OMB Circular A-21 states that an allocable cost should be charged in accordance with relative benefits received or other equitable relationships. Accordingly, these purchases should not have been treated as expenses since they were not sold or consumed during the subject FY. This misclassification of purchased inventory overstated operating expenses and understated the fund balance. As a result, Federal agreements were overcharged \$722,179, consisting of \$468,643 in direct costs and \$253,536 in indirect costs.

Duplicate Recovery of Equipment Costs

We found that 3 of the 12 universities had occasionally recorded the full cost of purchased or leased (operating and capital) equipment as an expense in the year acquired, and a portion of the cost as depreciation over the life of the asset. Two of the three universities recorded both the principal payments on bonds used to finance the equipment and depreciation expense for the same equipment to its recharge center accounts. The third university depreciated equipment that had already been fully expensed in its recharge center accounts. These improper accounting practices resulted in overcharges to Federal agreements of \$284,068. This amount consisted of \$185,057 in direct costs and \$99,011 in indirect costs.

Expensing of Capital Equipment

We found that 6 of the 12 universities expensed \$3,085,296 in equipment costs which should have been capitalized and depreciated over the useful life of the assets. Since supporting records were available for only four of the six universities, we were only able to identify \$136,630 in overcharges to Federal agreements. This

FINDINGS AND RECOMMENDATIONS

amount consisted of \$92,415 in direct costs and \$44,215 in indirect costs.

Expensing the total cost of equipment is not in accordance with generally accepted accounting principles (GAAP) which require the cost of an asset to be spread over its expected useful life. While OMB Circular A-21 allows universities to be compensated for the use of their equipment through depreciation or use allowance, its related guidelines follow this basic concept of GAAP.

Capital Equipment Reserves

Recharge centers at two universities included a markup in billing rates above cost to accumulate a total reserve of \$2,128,553 for equipment replacement and additions. The OMB Circular A-21 specifically states that "(c)harges for the use of specialized services should be designed to recover not more than the aggregate cost of the services...." By including a markup in the billing rates, the two universities overstated the amounts charged to users and recovered more than the actual costs incurred. This resulted in one university overcharging its Federal projects by \$28,302. Excess amounts charged by the other university had an immaterial effect on Federal research.

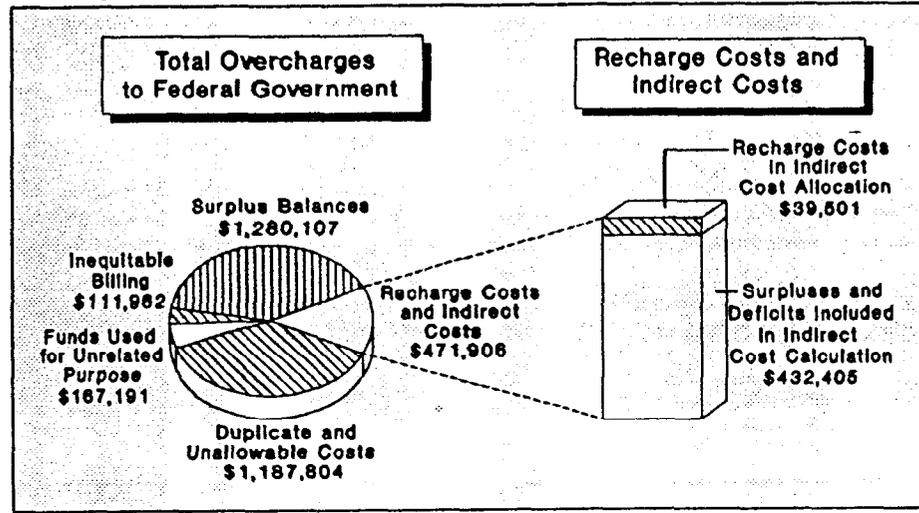
Entertainment, Interest, and Bad Debt Expenses

We found that three universities had included \$1,397,803 in unallowable costs related to entertainment, interest, and bad debt expenses in their recharge center operating accounts. Sections J15, J22, and J4 of OMB Circular A-21 state that entertainment expenses, interest on borrowed capital, and bad debt write-offs "...are unallowable." Since supporting records were available for only two of the universities, we could only identify overcharges of \$16,625 to the Federal Government. This amount consisted of \$10,909 in direct costs and \$5,716 in indirect costs.

We realize that it may be impractical to exclude unallowable costs in the calculation of billing rates when considering that recharge centers also provide services to nonfederal users. Furthermore, it would not be feasible to charge different billing rates to Federal and nonfederal users. To resolve this issue and comply with OMB Circular A-21, universities should perform periodic reviews to compare amounts charged with actual allowable costs. The Federal share of differences between billed and actual allowable costs should be reflected in the subsequent adjustment of amounts charged to Federal programs.

RECHARGE COSTS AND INDIRECT COSTS

Some universities had inadequate controls to prevent costs of recharge centers from being incorrectly included in the calculation of the indirect cost rate. Our results at four universities disclosed that: (1) universities included surplus and deficit balances of recharge centers in their calculation of indirect cost rates, resulting in overcharges of \$432,405 over 3 years, and (2) indirect cost rates also included recharge center costs used to develop billing rates, resulting in a duplicate recovery of \$39,501 from Federal projects.



Surpluses and Deficits Included in the Indirect Cost Calculation

We found that two universities included their recharge centers' surplus and deficit fund balances in the calculation of their indirect cost rates. When surplus balances (revenues in excess of expenses) are included in an indirect cost pool, the indirect cost rate may be understated. Inversely, deficit balances (expenses exceed revenues) would overstate an indirect cost rate. For practical reasons, it would be reasonable for a university to close out an immaterial fund balance to an indirect pool. However, one university included a net deficit of \$830,597 (\$1,498,348 deficit and \$667,751 surplus) from two recharge centers in the general and administrative indirect cost pool. As a result, the Federal Government was overcharged \$432,405 over a 3-year period through higher indirect cost rates. The amount overcharged by the other university was immaterial.

The OMB Circular A-133 Compliance Supplement states that over/underrecoveries should be distributed to the original users. We believe that netting surpluses and deficits from various recharge centers does not meet this requirement since billing rates would not be appropriately adjusted. When surpluses are used to offset costs in indirect cost pools, related credits are not distributed to the users who were originally billed for the services which created the surplus. Transferring deficits to indirect cost pools may result in the duplicate recovery of related costs. If recharge accounts are not closed (fund balances reduced to zero), deficit balances would be carried into the subsequent period and recovered through an increase in both the university's indirect cost rate and recharge center's billing rate.

Costs Used in Billing Rates Were Also Included in the Indirect Cost Allocation

Three universities classified costs as expenditures and capitalized items in recharge center accounts used to determine recharge center billing and indirect cost rates. The recovery of duplicate costs is not consistent with the cost principles. Our review found that two of the universities included \$145,819 in depreciation on equipment in their recharge center operating accounts and indirect cost rate proposals. Because there was a lack of controls to ensure that costs associated with recharge centers were not included in indirect cost rate proposals, some of the recharge centers' costs were recovered twice. The results of the third university were immaterial.

Although it was beyond the scope of the individual audits of recharge centers to determine the extent of this problem at each university, we determined that one university received a duplicate recovery of \$39,501 from Federal projects. Information regarding the Federal share of duplicate equipment costs was not available for the other two universities. However, we did ask the second university to determine the amount of duplicate overcharges and to resolve any issues with DCA. An OIG auditor determined that identified overcharges for the third university were immaterial.

FUNDS USED FOR UNRELATED PURPOSES

We found that four universities used \$3.5 million in surplus recharge center funds for unrelated purposes. This was accomplished by either transferring a fund balance from a recharge center to another fund or using recharge center funds to purchase unrelated goods or services. For example, recharge center funds were used to:

- (1) develop a universitywide accounting system;
- (2) increase general and capital improvement funds;
- (3) renovate academic offices;
- (4) purchase cables for a Federal project; and
- (5) supplement an athletic department's funds.

For example:

- Three service centers at one university were charged \$200,000 for the partial funding of developing, acquiring and implementing a universitywide financial accounting system (FAS). The FAS benefited the entire university and its cost should have been recovered through the indirect cost rate as a general and administrative cost charged to all users. By recovering the cost through service center billing rates, the Federal Government paid a disproportionate share of FAS.
- Occasionally, excess funds from recharge centers at another university were routinely used for projects not related to the operation of the recharge center which accumulated the funds. During FYs 1990 and 1991, the university transferred \$225,000 in excess funds from its recharge center for telephone services to the Director of Finance for Athletics, and used an additional \$75,000 to renovate academic offices. Clearly, Federal funds provided for sponsored research projects should not be used to fund athletics or instruction.

None of these expenditures or transfers were for purposes directly related to the operation of the recharge centers. Because these funds were not used to adjust the appropriate billing rates, Federal agreements were overcharged by \$167,191 by three of the universities. This amount consisted of \$115,273 in direct costs and \$51,918 in indirect costs. We could not calculate the effect on Federal agreements for the fourth university since supporting records were not available.

An OMB Circular A-133 audit should detect such issues of noncompliance since one of many objectives of OMB Circular A-133 Compliance Supplement is to determine "...whether a refund has been made to the Federal Government for its fair share of any amounts thereof which have been removed, transferred out, or borrowed from the recharge center fund."

INEQUITABLE BILLING

We found that some universities did not bill all users for services or billed certain users at a reduced rate. Section J44.c of OMB Circular A-21 requires that the cost of each service be charged directly to users based on actual use of the service and that rates do not discriminate between federally and nonfederally supported activities, including university internal activities.

FINDINGS AND RECOMMENDATIONS

Billing All Users Equitably

We found that two universities either did not bill all users for services provided by recharge centers or billed certain users at lower rates. If recharge centers provided preferential treatment to a subset of users, either by billing them at a reduced rate or not at all, other users would have to be billed in excess of costs to cover uncollected revenues. In this way, Federal projects could be overcharged even though a recharge center did not accumulate a surplus balance. For example, university staff and students at one university were not billed for \$23,247,203 of services provided by the computer center during the period July 1, 1988, through June 30, 1991. This practice resulted in overcharges to the Federal Government of \$111,962, which consisted of direct costs of \$69,742 and indirect costs of \$42,220.

Separate Billing Rates for Goods and Services

Recharge centers providing multiple services may subsidize the cost of certain services by charging excessive rates for other services. Consideration should be given to size, complexity and equity in setting multiple rates for a recharge center. Users of services provided in a more efficient manner may pay higher rates than necessary in order to subsidize less efficiently provided services. Although we did not find this problem at the 12 universities summarized in this report, we did perform a special review of a computer center at another university where inequitable pricing occurred.

We also found that recharge centers at some of the universities we reviewed did not have adequate accounting records to track revenues and expenditures related to specific goods and services. In these instances, billing rates may not reflect actual costs due to inadequate accounting records.

UNIVERSITY AND OIG COMMENTS ON SIGNIFICANT ISSUES

Generally, most universities were receptive to our proposed recommendations to improve internal controls over recharge centers. Many welcomed OIG's recommendations as a way to strengthen current university policies and procedures. However, some universities disagreed with our recommendations and believed that: (1) overcharges to Federal projects in one cost center should be offset against undercharges by other recharge centers; (2) recharge centers should not have to conduct cost studies or treat surplus balances as overcharges to the Federal Government if the billing rates are competitive with market prices charged by outside vendors; and (3) indirect costs should be allocated to recharge centers which

would reduce surpluses prior to calculating refunds. We discuss these areas in the following section of the report.

**Offset Surpluses
Against Deficits
Among Recharge
Centers**

Some of the universities believed that overcharges to Federal projects in one recharge center should be offset against undercharges by other centers. Generally, the universities believed that if the net surplus balance of all recharge centers was reasonable, no financial adjustment should be made based on the findings of individual recharge centers.

We disagree. Each recharge center is organized to provide a specialized service to a set of users. As such, each center operates independently, and its surpluses and deficits should accrue to users through either adjusted rates or individual adjustments to all Federal users. The OMB Circular A-133 Compliance Supplement states that the methods used to adjust for accumulated over/underrecoveries should distribute these amounts in reasonable proportion to the same users as were originally billed for the services which created the accumulation. We believe that netting surpluses and deficits will not meet this requirement because not all sponsored projects use all recharge centers and some use certain recharge services more than others. In addition, section C4.b of OMB Circular A-21 states that:

"Any costs allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience."

**Billing Rates
Based on Market
Prices**

Some of the universities believed that they should not have to conduct cost studies or treat surplus balances as overcharges to the Federal Government when recharge center billing rates were comparable to market prices of outside vendors.

We disagree. Federally sponsored projects for research are generally awarded on a cost reimbursable basis whereby costs should be based on actual charges to such agreements. Section J44.c of OMB Circular A-21 states that billing rates should be designed to recover not more than the aggregate cost of the services over a long-term period agreed to by the institution and the cognizant Federal agency. In order to calculate the appropriate billing rates in accordance with this section, studies must be performed to determine the recharge centers' actual costs of operation and the

volume of services provided. In addition, the use of market prices of outside vendors to establish recharge center billing rates would not be appropriate to the extent that market prices include a profit margin. Therefore, the use of market prices would result in the universities' recovering vendor profit margins as well as recovering costs.

**Offset Surpluses
with Indirect
Costs**

Some of the universities wanted to reduce financial adjustments recommended by OIG by indirect costs they believed were not included in recharge center billing rates for recharge centers. The universities claimed that indirect costs would have been charged to the appropriate recharge centers' accounts. This would have reduced the related fund balances and the repayment to the Federal Government would be smaller.

Although OMB Circular A-21 allows universities to allocate their indirect costs to recharge centers, most universities do not. Rather, the billing rates for recharge centers were typically based on direct costs. Amounts billed to federally sponsored projects were included in total direct costs whereby a university would apply its negotiated indirect cost rate to determine total indirect costs for Federal research. Whether a university chooses to allocate its indirect costs to recharge centers or not, the development of recharge center billing rates and the development of the indirect cost rate should be consistent and prevent duplicate charges for indirect costs. Thus, our determination of whether unallocated indirect costs could be used to reduce fund balances at individual universities was made relative to the method used to develop the indirect cost rate.

SUMMARY OF CAUSES

Our review disclosed that 10 of the 12 universities had formal written policies and procedures generally consistent with OMB Circular A-21. However, 9 of the 10 universities did not always follow their policies and procedures. We also noted that some university recharge centers did not maintain adequate accounting systems and records to allow for the: (1) development of billing rates based on actual costs; or (2) identification of surplus or deficit fund balances. We believe that DCA should require universities to implement policies and procedures consistent with OMB Circular A-21, and the Circular should be revised to provide specific instructions for when and how recharge centers should adjust for surpluses and deficits in fund balances.

FINDINGS AND RECOMMENDATIONS

University Oversight

Clearly, universities are in the best position to implement policies and procedures for the operation of institutional recharge centers. However, we found that some universities did not establish written policies and procedures for recharge centers and some of the universities had adequate policies which were not being followed. Section A2.e of OMB Circular A-21 states that:

"The application of these cost accounting principles should require no significant changes in the generally accepted accounting practices of colleges and universities. However, the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements."

Some universities indicated that it was difficult to require recharge centers to follow OMB Circular A-21 requirements since their internal control structure did not include a governing body designed to monitor all recharge centers. They believe that unallowable practices would continue unless Federal auditors took exception to them. Many of the universities welcomed our reports and viewed them as a means for enforcing existing policies and procedures.

Billing Rates and Fund Balances

Section J44.c of OMB Circular A-21 requires billing rates to be reviewed periodically and adjusted if necessary. Although several of the universities had implemented policies and procedures to analyze and adjust billing rates to prevent accumulation of excess funds, some universities had not implemented the policies effectively and others had deficiencies such as expensing equipment or using costs from recharge centers to calculate indirect cost rates. We also found that two universities had no formal policies and procedures to govern the financial operation of recharge centers. Although recharge centers at one university established their own policies, they varied from center to center. In view of this, section C2.c of OMB Circular A-21 requires the consistent treatment of costs through the application of GAAP.

Some universities clearly provided less oversight of recharge centers than others. At two universities, internal and external auditors had reported problems at recharge centers, however, the universities did not take corrective action.

Some university officials indicated that it was difficult to get recharge centers to prepare annual cost studies even when it was required by university policy. Thus, many universities monitored recharge

centers on an exception basis. If a university observed a center incurring a deficit or accumulating a large surplus, the center was advised to revise its billing rates or take other corrective action.

However, monitoring fund balances was not sufficient to assure that recharge centers charging Federal projects were operating in accordance with OMB Circular A-21 and prescribed university policies and procedures. For example, recharge centers that did not bill all users for services provided yet recovered all costs from a subset of billed users usually did not accumulate a surplus fund balance. A recharge center could also incur unallowable expenditures and reduce a fund balance. For example, one recharge center reporting a year-end fund deficit of \$271,932 actually had a fund surplus of \$539,552 after adjusting the balance by \$811,484 in unallowable charges and transfers made during the year.

We believe that the majority of identified problems resulted in overcharges to the Federal Government. These overcharges would have been identified by the universities if related recharge centers had prepared adequate cost studies that were reviewed by an independent official (e.g., controllers' office) of the university. Officials from many of the universities reviewed agreed with our assessment.

We found that universities with adequate internal controls over recharge operations had established a governing body such as a recharge committee or a component in the controller's office to oversee the operations of recharge centers. The recharge committees generally helped centers develop billing rates, adjust rates to eliminate surpluses and deficits, analyze cost studies to eliminate unallowable costs and transfers, and ensure that centers captured all necessary data, such as annual units of service, to establish billing rates.

**Accounting System
and Records**

Section A2.e of OMB Circular A-21 requires that the accounting practices of individual colleges and universities support the accumulation of costs as required by the principles and provide for adequate documentation to support costs charged to sponsored agreements. Some university recharge centers did not maintain adequate accounting systems and records to allow for the:

- (1) development of billing rates based on actual costs; or
- (2) identification of surplus or deficit fund balances. For example, one university did not know the basis used to establish billing rates, and others could not determine if certain recharge centers were operating at a surplus or deficit.

We found that some universities tended to base billing rates on a concept of reasonableness or prices of outside vendors. However, this is not appropriate because federally sponsored agreements are usually cost reimbursable, and billing rates for recharge centers should not include income or markups. Even so, we found six recharge centers at one university that did not develop user billing rates to recover depreciation on assets. Instead, these costs were recovered through a universitywide indirect cost rate based on vendor prices. Generally, the recovery of recharge center costs through indirect cost rates may result in the duplicate recovery of such costs.

Each university should establish and maintain accounting systems and recordkeeping procedures applicable to recharge centers for capturing all financial, operating and statistical data that is: (1) necessary for good internal control; (2) necessary for development and maintenance of billing rates; and (3) not available from the university's main accounting system. If accounting systems and records are inadequate, then billing rates used to charge Federal projects may be overstated. It may also be impossible to make retroactive adjustments to correct ending fund balances. Section A2.e of OMB Circular A-21 requires universities to support the accumulation of costs and to provide for adequate documentation to support costs charged to sponsored agreements.

Examples of records that should be maintained include: (1) financial records that track revenues, expenditures and surplus/deficit to specific goods and services within a cost center; (2) statistical records necessary for allocating costs or accumulating units of service available and used (e.g., vehicle miles, central processing units, or animal care days); (3) effort reporting records that identify employee work-time (in hours or percentage of time) to goods or services within a cost center; (4) background information that defines cost pools and terminology, describes allocation algorithms, and documents the basis for choosing a particular algorithm; (5) depreciation schedules; and (6) inventory systems.

University Reports Our findings at the 12 universities indicate that the Federal Government should require universities to strengthen their methodologies for recording, allocating, reporting, billing, and adjusting costs incurred by recharge centers as stipulated by OMB Circular A-21. Furthermore, each university should prepare a summary report on recharge center activity, and include a review of the report as part of an OMB Circular A-133 audit.

The recharge center activity report should disclose, for each center: annual revenues, expenditures and transfers, beginning and ending fund balances, schedule of current billing rates with a description of how each billing rate was calculated, and dates of the most recent cost study and rate approval. Adopting such a requirement would produce a certain discipline for the universities to assure that rates were analyzed and adjusted. These reports would be reviewed and tested through an OMB Circular A-133 audit and could be requested by DCA under certain circumstances. The OMB Circular A-133 audits should be the primary mechanism for evaluating the financial management of recharge centers. Identified discrepancies would be resolved by DCA.

OMB Guidance

The OMB issued Circular A-21 to provide universities with principles and guidelines for determining allowable costs applicable to Federal research. The circular makes reference to the operation of recharge centers at colleges and universities. The OMB Circular A-133 and its Compliance Supplement were issued to provide guidance regarding audits of educational institutions and nonprofit organizations that receive Federal funds.

We found that the language in OMB Circular A-21 regarding Specialized Service Funds (Recharge Centers) needs to be clarified. Section J44 seems to refer to recharge centers as an exception to the allocation of indirect costs rather than as a useful costing procedure for a large array of goods and services. We believe that OMB Circular A-21 should include a separate, comprehensive section for recharge centers and define when recharge centers should be established.

Based on our review, we concluded that recharge centers should be established when the activity provides a specialized service to specific users and has annual operating costs above a certain level (e.g. over \$1,000,000). Recharge centers should also be established when the distribution of operating costs are significantly different when recharge center billing rates are used as opposed to universitywide indirect cost rates. Differences between the results of using billing and indirect cost rates should not be evaluated based on Federal and nonfederal funding alone, but should also consider funding sources of federally sponsored research. In view of this, OMB Circular A-21 would need to include definitions for terms such as materiality and periodically.

We also noted that OMB Circular A-21 does not make any provisions for working capital, and requires a "periodic" review and adjustment of billing rates. Consequently, universities generally

followed the concepts of GAAP and believed that it was necessary and proper for recharge centers to maintain a working capital reserve. Many universities were also aware that OMB Circular A-87 was being revised, allowing for the maintenance of a working capital reserve for internal service funds at State and local governments. When coupling the provisions of OMB Circular A-87 with the ambiguities of OMB Circular A-21, universities had the means to continue using rates which accumulated excess funds. Although we did not perform extensive testing of recharge centers with deficits, officials at many universities informed us that recharge centers were much more likely to adjust billing rates if a fund balance was operating at a deficit rather than a surplus.

While OMB Circular A-21 requires the accounting practices of universities to support the accumulation of costs and to provide adequate documentation to support costs charged to sponsored agreements, it is not as specific as the proposed revisions of OMB Circular A-87 which establishes cost principles for State and local governments. In support of claims made against the Federal Government in the form of recharge billing rates, governmental units under the proposed revisions of OMB Circular A-87 must provide: (1) fund balance sheets based on individual accounts contained in the accounting system; (2) revenue and expenditure statements with revenues summarized by type of user (e.g., Federal and nonfederal programs); (3) listings of transfers into and out of funds; (4) descriptions of the procedures (methodologies) used to charge the costs of each service to users and how billing rates were determined; and (5) schedules of current rates.

We believe that it would be helpful to use OMB Circular A-21 to require university management to improve the financial operation of recharge centers. For example, one university had a centralized recharge committee which effectively monitored all of its recharge centers. The university's recharge center policy required that each center submit a rate proposal to the centralized rate committee for review and approval annually.

The proposed revisions of OMB Circular A-87 also provide State and local governments more specific guidance with regard to the need to bill all users than is provided by OMB Circular A-21. The proposed revisions of Circular A-87 state that:

"...revenue should consist of all revenue generated by the service, including unbilled and uncollected revenue. If some users were not billed for the services (or were not billed at the full rates), a schedule showing the full

'imputed' revenue associated with these users should be provided."

The recommendation section of the report includes aspects of OMB Circular A-87 related to recharge centers that we believe should be adopted within OMB Circular A-21 and applied to universities.

RECOMMENDATIONS

Our recommendations relate to two issues: (1) improved university oversight; and (2) recommended changes to OMB Circular A-21.

1. To provide more effective oversight to recharge centers, DCA should require universities to:
 - Develop and implement policies and procedures for the operation of recharge centers consistent with OMB Circular A-21;
 - Establish and maintain adequate accounting and recordkeeping procedures for recharge centers; and
 - Analyze and adjust billing rates to eliminate deficit and surplus fund balances.

2. Without definitive guidance in OMB Circular A-21, universities' interpretations of section J44 resulted in charges to Federal projects using billing rates which were not based on actual costs. To provide clear and definitive guidance for operating recharge centers, we recommend that HHS' Division of Cost Policy and Oversight work with OMB to revise OMB Circular A-21 to ensure that criteria related to the financial operation of recharge centers is clear. We recommend that a separate, comprehensive section be added to OMB Circular A-21 which promulgates the requirements for the financial operation of recharge centers. These requirements should cover the following points:
 - Permit a reserve for working capital similar to that proposed for OMB Circular A-87 by stipulating that a recharge center surplus fund should not exceed 60 days in working capital;
 - Credit recharge center accounts with interest earned on fund balances;

FINDINGS AND RECOMMENDATIONS

- Require all Federal projects to be credited or refund the Federal share of funds transferred or used for purposes unrelated to operation of the center;
- Specify that interest, as well as principal, should be considered as a cost when funds are transferred out of the recharge center accounts;
- Require all users to be billed at full rates or establish a procedure to assure that billed users are not subsidizing unbilled users;
- Specify that indirect costs of centers should be included in billing rates;
- Specify that costs cannot be used in the computation of both indirect cost rates and recharge center billing rates except for minor variances between billed and actual costs;
- Develop specific criteria for establishing recharge centers;
- Require cost studies as a basis for establishing billing rates and ensure all users are billed;
- Require periodic reviews to compare amounts charged with actual allowable costs. The Federal share of differences between billed and actual allowable costs should be reflected in the subsequent adjustment of amounts charged to Federal programs;
- Define ambiguous terms such as materiality and periodically; and
- Require universities to retain supporting documentation similar to that required of State and local governments under the proposed revision of OMB Circular A-87.

COMMENTS FROM THE DEPUTY ASSISTANT SECRETARY FOR GRANTS AND ACQUISITION MANAGEMENT AND OIG RESPONSE

In written comments dated October 7, 1993, the DASGAM concurred that OMB Circular A-21 should be revised to provide clearer and more definitive guidance on the financial operations of recharge centers. The DASGAM also agreed that institutions should comply with certain standards in the financial management of their recharge centers. However, it was stressed that this area should be evaluated by nonfederal auditors as part of an institution's OMB Circular A-133 audit. The role of DCA would be to resolve any deficiencies reported by the auditors. The DASGAM's comments are included in their entirety in APPENDIX D.

We agree that it would be appropriate for nonfederal auditors to evaluate the financial management of recharge centers as part of an institution's OMB Circular A-133 audit. In addition, the OIG is planning a nationwide review that will encourage schools to self assess their controls to determine if the financial management of recharge centers is in compliance with OMB Circular A-21. We will refer any deficiencies identified to DCA for resolution.

- - - - -

To facilitate identification, please refer to Common Identification Number A-09-92-04020 in all correspondence relating to this report. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

A P P E N D I C E S

LIST OF INDIVIDUAL REPORTS ON UNIVERSITIES REVIEWED

	<u>UNIVERSITY</u>	<u>CIN</u>	<u>ISSUE DATE</u>
1.	University of Arizona (Arizona)	A-09-92-04011	December 1992
2.	Boston University (Boston)	A-01-91-04015	June 1992
3.	University of Chicago (Chicago)	A-05-91-00133	March 1992
4.	Johns Hopkins University (Hopkins)	A-03-92-04008	March 1993
5.	University of Miami (Miami)	A-04-91-04078	October 1992
6.	University of Mississippi (Mississippi)	A-04-92-04120	April 1993
7.	University of Missouri, Columbia, Missouri (Missouri)	A-07-91-00489	March 1992
8.	University of Pennsylvania (Pennsylvania)	A-03-92-04000	March 1992
9.	Rutgers, The State University of New Jersey (Rutgers)	A-02-92-02500	October 1992
10.	University of California, San Diego (San Diego)	A-09-92-04015	November 1992
11.	Tulane University (Tulane)	A-06-91-00106	May 1992
12.	University of Washington (Washington)	A-10-92-04003	October 1992

Summary Report on Audits of Recharge Centers at 12 Universities
Overcharges to Federal Projects by Finding and University

	Surplus Fund Balances	Duplicate and Unallowable Costs					Recharge and Indirect Costs			Funds Used for Unrelated Purposes	Inequitable Billing	Total
		Year-end Inventory Purchases	Duplicate Recovery of Equipment Costs	Expensing of Capital Equipment	Capital Equipment Reserves	Unallowable Entertainment Interest and Bad Debt Expenses	Subtotal	Surpluses and Deficits in Indirect Cost Calculation	Recharge Costs in Billing Rates and ICA*			
Arizona	\$537,632			\$64,289			\$64,289		\$39,501	\$39,501		\$641,422
Boston				ND				\$432,405		432,405	ND	\$432,405
Chicago					ND							
Hopkins	226,940	\$722,179	\$135,878	26,269		884,326					\$105,603	\$1,216,969
Miami	277,795			ND			ND				ND	\$277,795
Mississippi				18,104		18,815	711				55,425	\$74,240
Missouri	19,124				28,302	28,302						\$47,426
Pennsylvania												(1)
Rutgers	ND							ND	ND			
San Diego	218,616											\$218,616
Tulane			24,445	27,968		68,327	15,914				6,163	\$186,452
Washington			123,745			123,745			ND			\$123,745
Total	\$1,280,107	\$722,179	\$284,068	\$136,630	\$28,302	\$1,187,804	\$16,625	\$432,405	\$39,501	\$47,906	\$167,191	\$3,218,970

* ICA = Indirect Cost Allocation

ND = Not Determined

(1) = The OIG review at the University of Pennsylvania did not identify any overcharges since recharge centers are being operated in accordance with OMB Circular A-21.

Summary Report on Audits of Recharge Centers at 12 Universities
 Recharge Centers Reviewed at Each University

Type of Recharge Center	Arizona	Boston	Chicago	Hopkins	Miami	Mississippi	Missouri	Pennsylvania	Rutgers	San Diego	Tulane	Washington	Total
Animal Care			1						1				2
Book Store					1								1
Cancer Center								1					1
Chemistry/Other Sciences	1		1	1			1	1	6				11
Comparative Medicine												1	1
Computer Services/Maintenance	1			2	4						1		8
DNA Core							1						1
General/Other Supplies	1			2			1	1	1			1	6
Glass Blowing								1					1
Graphics/Printing & Publication	1		1				1		1	1		2	8
Health Science Center												1	1
Learning Resources										1			1
Machine Shop	1							1		1			3
Motor Pool	1										1		2
Remote Sensing Lab							1						1
Scientific Instrument												1	1
Telephone Telecommunications			1	1			1				2		6
Temporary Services												1	1
Total	6	2	3	6	6	3	3	4	9	3	3	6	56



OCT 7 1993

Washington, D.C. 20201

IG	_____
PDIG	_____
DIG-AS	_____
DIG-EI	_____
DIG-OI	_____
AIG-MP	_____
OGC/IG	_____
EX SEC	_____
DATE SENT	10/8

TO: Bryan B. Mitchell
Principal Deputy Inspector General

FROM: Terrence J. Tychan *Terrence J. Tychan*
Deputy Assistant Secretary for
Grants and Acquisition Management

Subject: Draft OIG Report -- Audits of Recharge Centers
at Universities (A-09-92-04020)

We have reviewed the draft OIG report on recharge centers operated by universities.

We agree with the recommendation in the report that OMB Circular A-21, " Cost Principles for Educational Institutions," should be revised to provide clearer and more definitive guidance on the financial operations of recharge centers. When the final report is issued, we will forward it to OMB with the suggestion that this subject be addressed in the next revision of the Circular.

The draft report also recommends that the Department's Divisions of Cost Allocation (DCAs) "require" universities to comply with certain standards in the financial management of their recharge centers, such as the development and implementation of policies and procedures for operation of the centers consistent with Circular A-21. We understand from discussions with OIG staff that the intent of this recommendation is that the institutions' financial management of the centers would be evaluated by non-Federal auditors as part of the audits required by Circular A-133, and that the role of the DCAs would be to resolve any deficiencies reported by the auditors. This appears to be a sound and workable approach. However, to avoid any misunderstandings, the language in the report should make it clear that the A-133 audits would be the principal mechanism for evaluating the financial management of the centers, and that the recommendation does not imply that routine reviews of the centers should be made by the DCA negotiators. Requiring the negotiators to make these reviews would be impractical and would detract from their ability to perform their primary responsibility of negotiating indirect cost rates.

1993 OCT -8 PM 3:18

RECEIVED
OFFICE OF INSPECTOR
GENERAL