



Direct Costing: Audits and Maintaining Compliance

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Agenda



- Introduction
- Current F.6.b. Audits
- Harvard
- Yale
- F.6.b. Check-up
- Questions and Discussion



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College and University F.6.b. Administrative and Clerical Costs Claimed as Direct Costs



- 2006 – 2007 – 4 HHS-OIG Audits including Duke University, Brandeis University and University of California San Francisco
- One more audit report is pending
- 2011 – 8 Audits were initiated including:
 - Dartmouth
 - SUNY – Albany
 - Thomas Jefferson University
 - Florida State University
 - Ohio State University
 - University of Texas Southwestern Medical Center
 - University of California San Diego



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OMB Circular A-21 Section F.6.b



OMB Circular A-21 Section F.6.b provides criteria for determining when clerical and administrative costs may be charged directly to projects.

(2) *The salaries of administrative and clerical staff should normally be treated as F&A costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity. "Major project" is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments....*

(3) *Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs.*



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Reasons for Audits



➤ Test treatment of costs for:

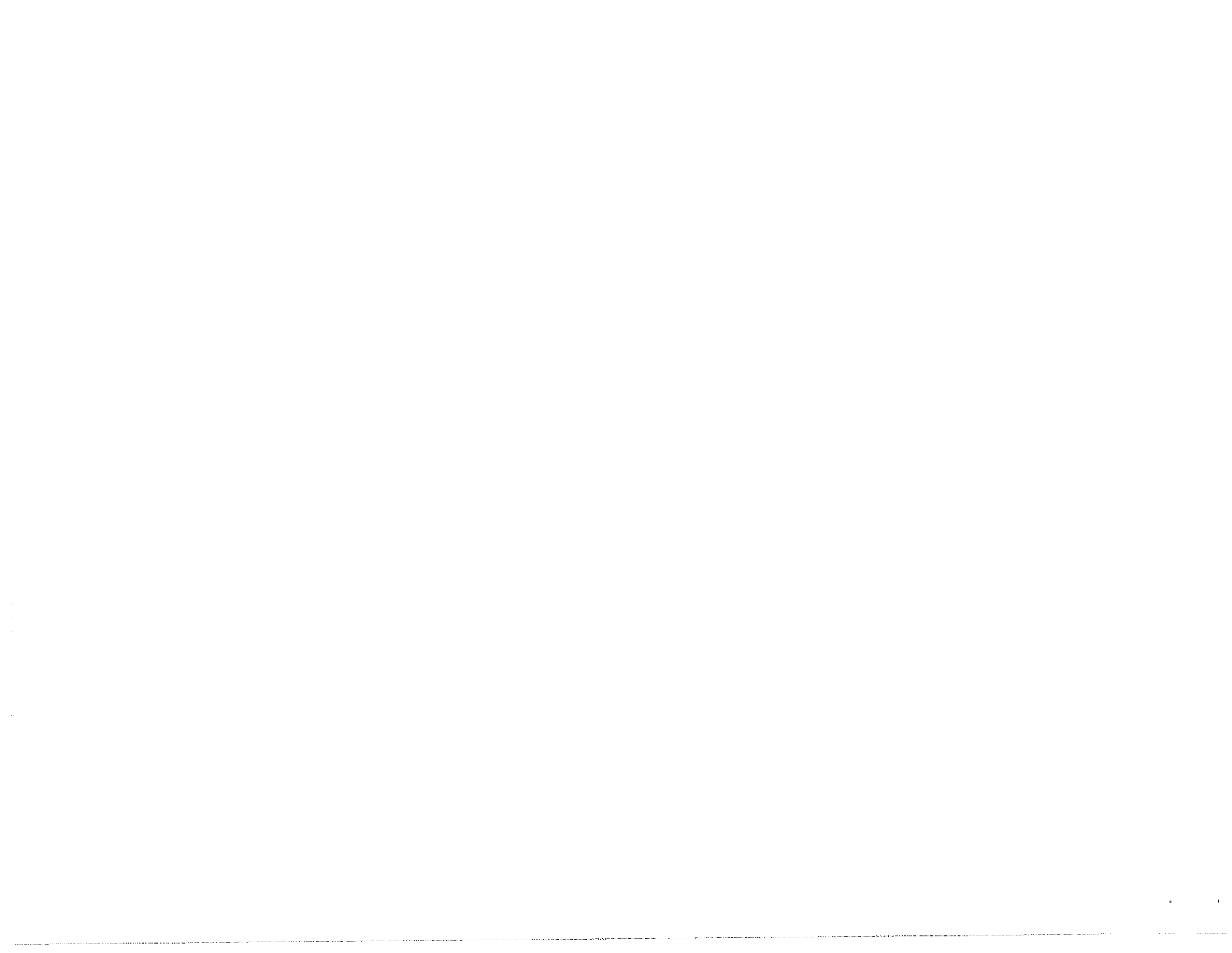
- Consistency
- Allowability
- Allocability

➤ In order to:

- Establish a process to follow on subsequent audits
- Determine if the problem exists and to what magnitude
- Determine the level of findings and disallowances
- See if tangential issues are discovered



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HHS OIG Audit - UCSF



- Stated objective of the review was:
To determine whether UCSF (University) has claimed reimbursement for administrative and clerical expenses as direct charges to the National Institutes of Health (NIH) grants and contracts when those costs should have been treated as indirect costs and recovered through the University's negotiated Facilities and Administrative (F&A) rates.
- The audit objective specifically related to (1) non-academic salaries and (2) administrative costs other than salaries
- A stratified variables random sampling methodology was employed by the HHS OIG to select the expenditure items to be reviewed. This methodology was applied so that the HHS OIG could project the dollar impact of the findings to the entire universe.
- Three strata were selected for the 195 payroll items.
- Two strata were selected for the 114 non-payroll items.
- All items that were \$300,000 or higher were selected as a "certainty sample".



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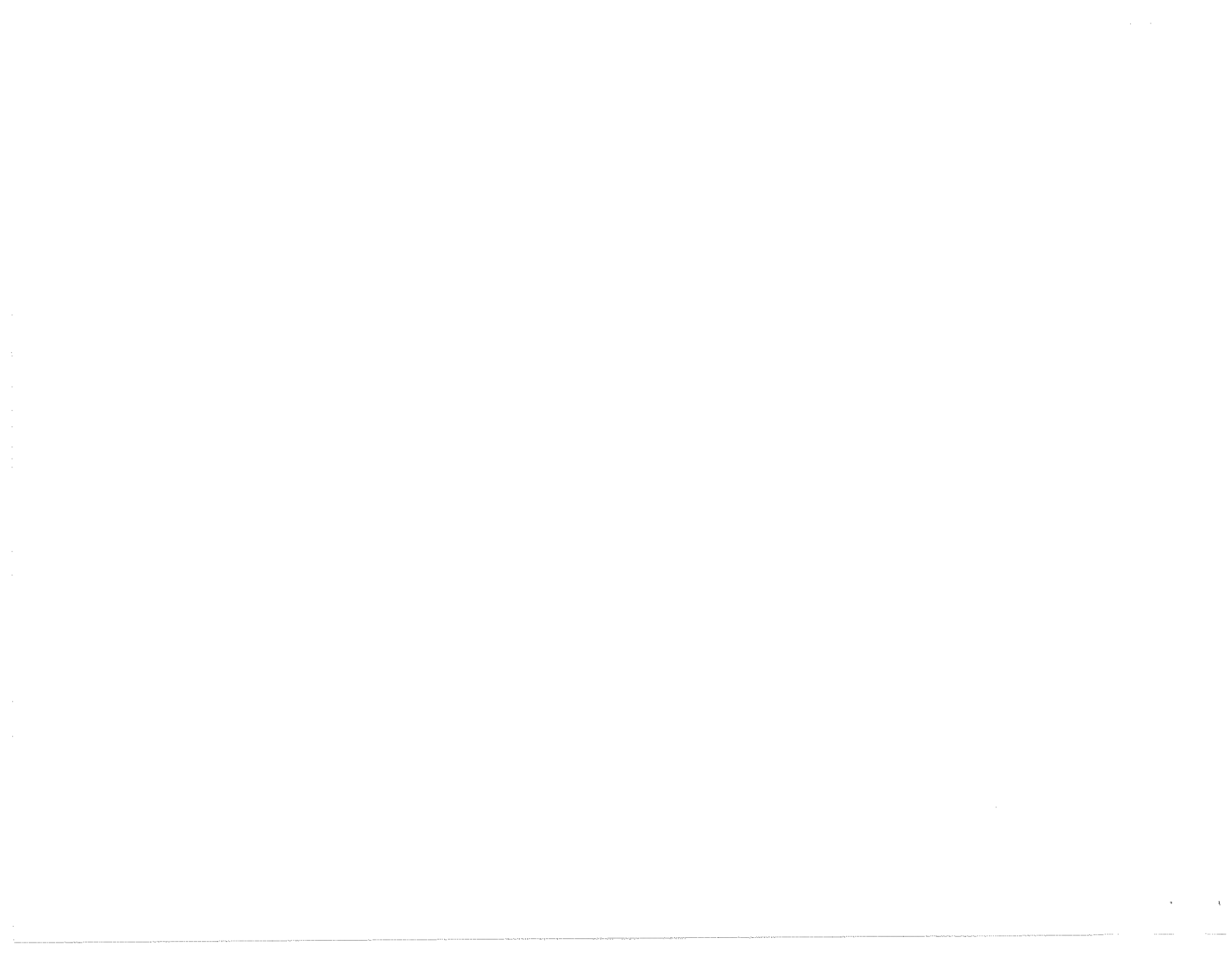
Scope of the Review



- Scope limited to the fiscal years ended 6/30/05 and 6/30/06
- \$635 mil of cost incurred on 2,135 grants, contracts, and other agreements with the NIH
- Scope included charges for sub-awards, as well as other direct charges



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Preparing for the Audit



- Once the expense items were selected by sampling, a folder was created for each item in the sample.
- A detailed checklist was completed for each item in the sample. This required that all of the required documentation to support the transaction was obtained. In addition, the people involved in the transaction (including those whose approval was needed) were identified. The folders and checklists were essential in maintaining control of the status of each item.
- Relevant criteria were included in the checklists. For instance, on cost transfers it would be essential to demonstrate that the cost transfers were made within regulatory time constraints.
- The award document and proposal submissions were included in the folder. This was very important.



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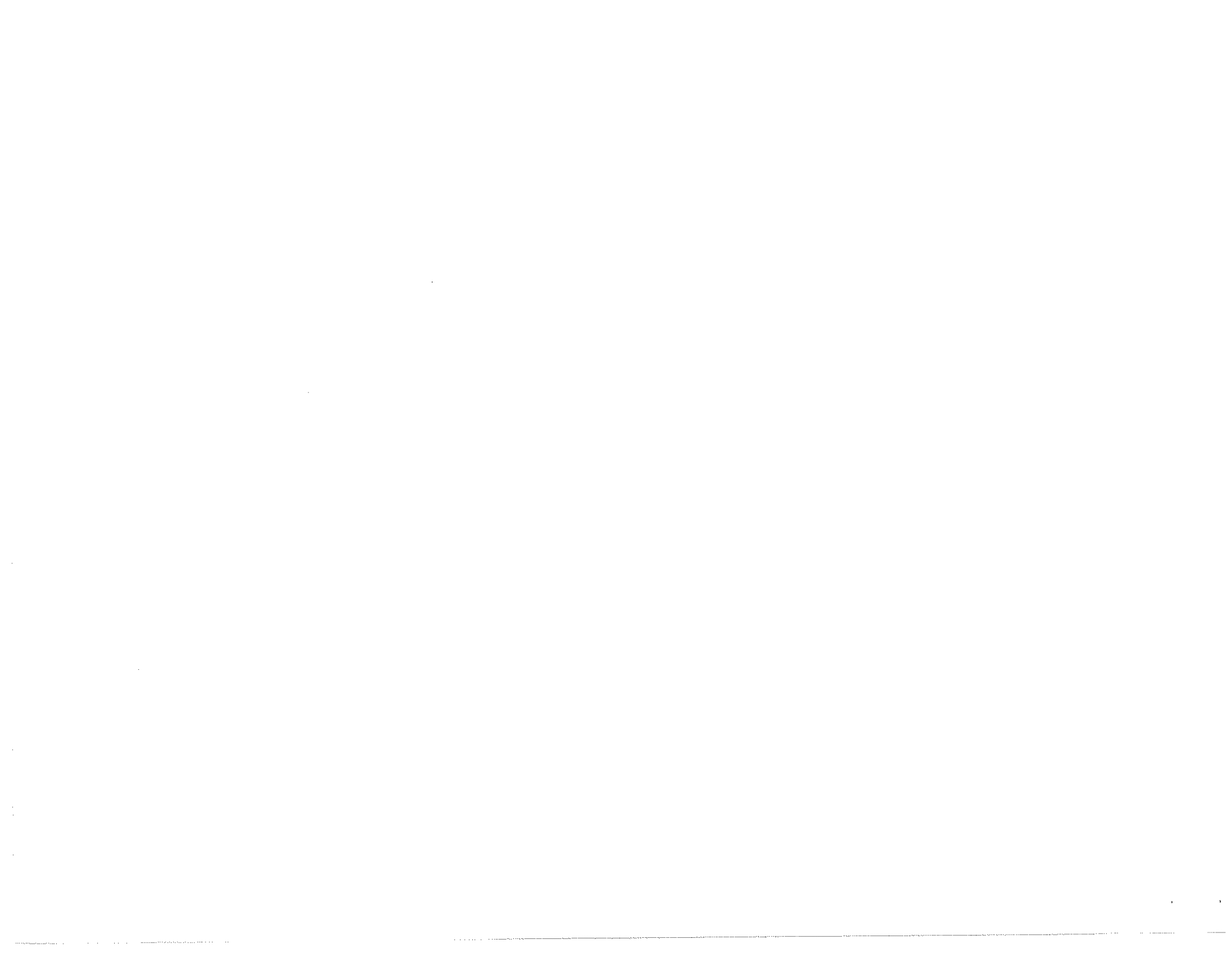
Issues During the Audit



- Obtaining required supporting information for the audit was more complex than may be expected.
- Significant coordination was needed with the UCSF Audit Management Group (including consultants), the UCSF accounting department, departmental personnel and payroll personnel in order to fully document each item. In some cases, this was made difficult, because certain departmental personnel had left the University.
- A significant amount of effort was spent going through proposal documents, award documents and amendments to awards to support the treatment of expense items as direct costs, rather than as F&A costs. This was the application of the OMB Circular A-21 Paragraph F.6.b. criteria.



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Results



According to the HHS, OIG final report 3/10/2008:

- The University substantially complied with federal regulations.
- The University made minor errors in charging costs.
- University officials stated that errors had been corrected.



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Summary of Issues

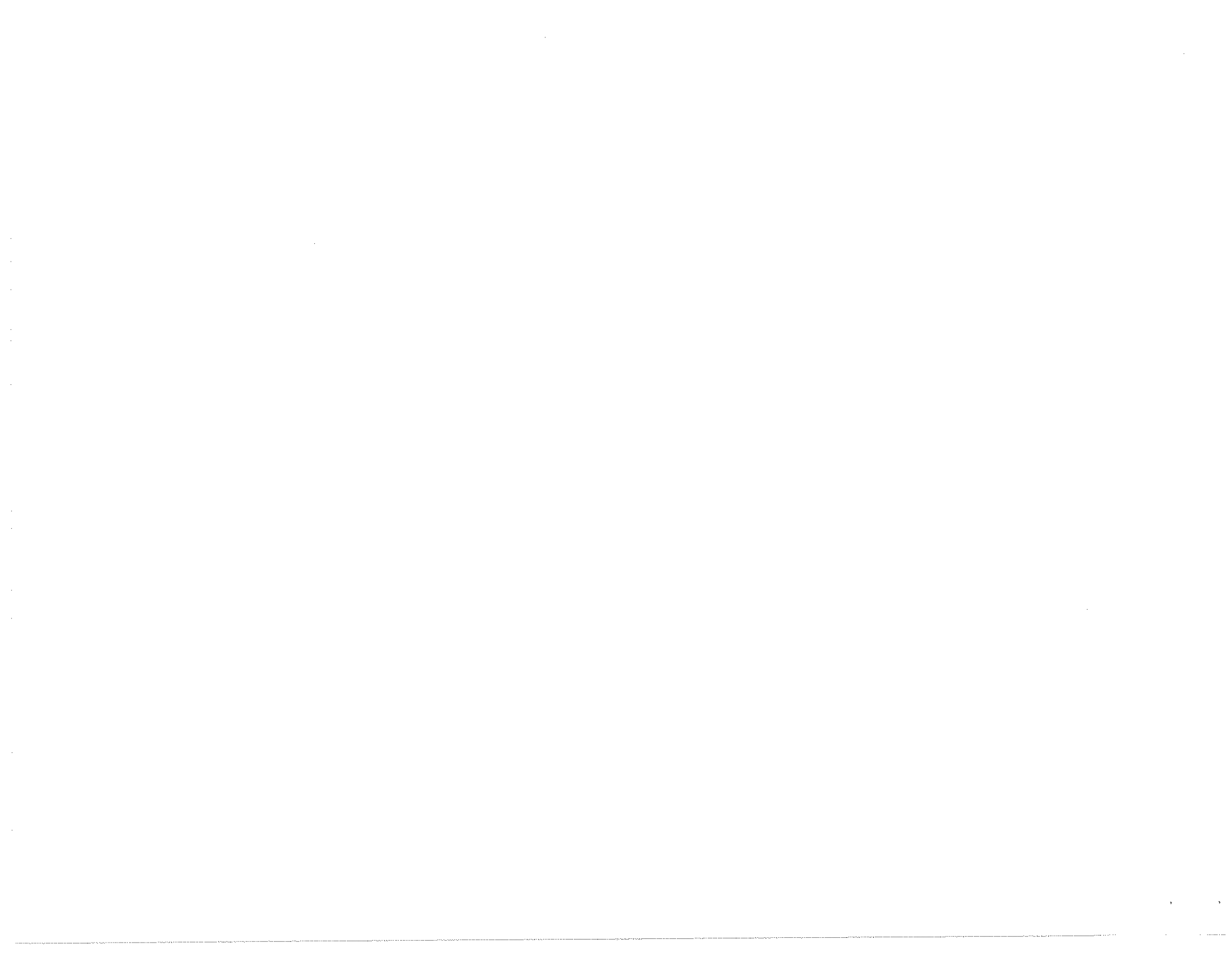


Major issues included:

- PAR Issues
- Award documentation issues
- Payment issues
- Payroll expense transfers
- Internal control/allocation issues
- Sub-award issues
- Non-payroll expense transfers
- Departmental issues



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Harvard



Harvard Policy

Direct Charging of Administrative Salaries to
Federal Grants



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Reassessing Harvard's Policy of Direct
Charging Administrative Salaries (2009)

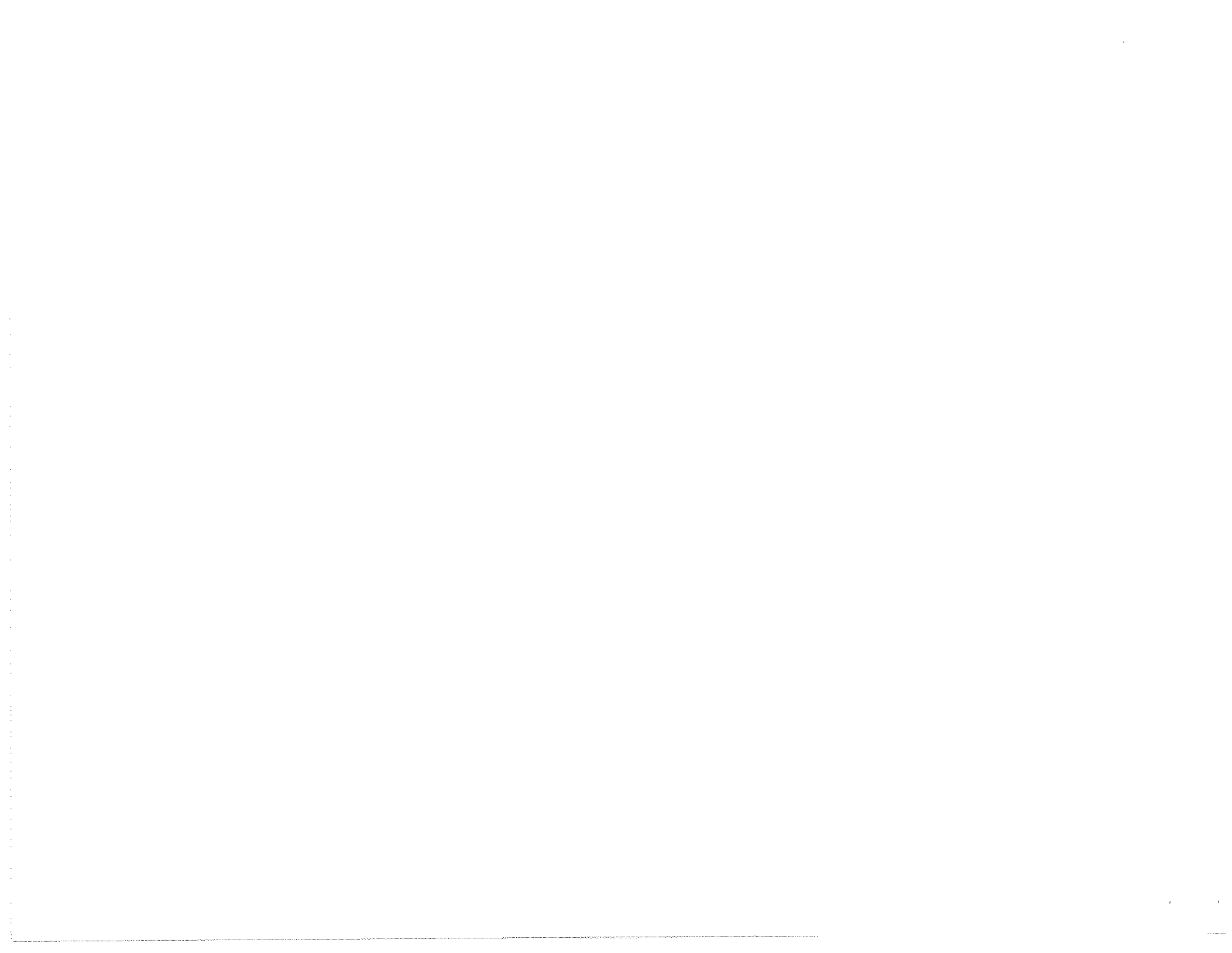


➤ Reasons for the Reassessment

- Federal regulations stipulate that “salaries of administrative and clerical staff should normally be treated as F&A costs.” Direct charging may be appropriate for “major project or activity.”
- Federal agencies more closely scrutinizing requests for admin support, increased “redlining”
- Increased attention by auditors, e.g. Duke University repayment of \$1.6 million in '09



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Reassessing Harvard's Policy of Direct Charging Administrative Salaries (2009)



- **Reasons for the Reassessment (cont.)**
 - Policies varied by school at Harvard, needed a consistent approach
 - 25% "minimum" threshold was problematic
 - "Administrative checklist" provided insufficient justification
 - Some requests for admin salaries were approved with inadequate justification or incomplete description of project tasks



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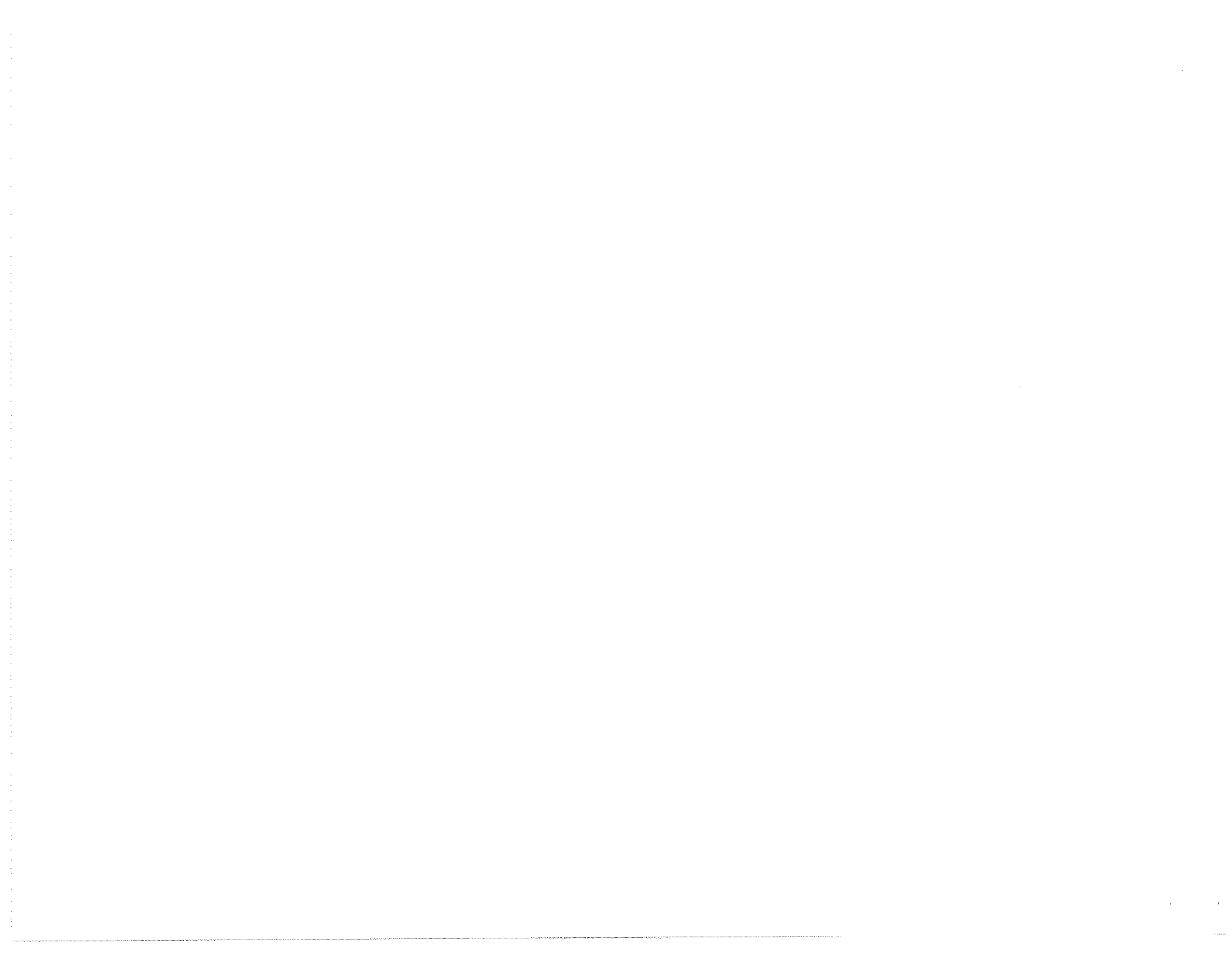
New University Policy Governing Federal Awards Effective 12/15/09



- Itemized in the proposal budget and approved by the sponsor
- Justified in writing by the specific duties outlined in the budget justification for the proposal
- Reviewed and approved by independent sponsored program's officials outside of the academic or research department from which the proposal budget originates
- Reviewed as incurred to ensure that these salaries are charged only to sponsored awards in which they are included in the budget awarded by the sponsor and for which the Harvard approval of the justification has been sufficiently documented.



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➤ Proposals requesting administrative and clerical support on grants must be approved by each school and OSP

- Budget justification must explain the reasoning behind any administrative and clerical salary requests
 - What makes this project different than the norm?
 - What specific project related duties will the administrator be performing?



- **Requests will not be allowed in proposals unless:**
 - The work constitutes a "major project" (per OMB examples)
 - Project has other significant features making administration by existing department staff inadequate
- **No longer use administrative checklist**
- **The "at least .25 FTE effort" requirement eliminated**



**Administrative Case Study:
Harvard "ARRA Projects Specialists"**



- ARRA Project Specialists assigned exclusively to one major activity—research
- Perform project-specific duties, not services that benefit "common or joint objectives" (DA)
- Project Specialists appointed on temporary (term) basis, coincident to the period of performance of ARRA awards
- Project Specialist did not prepare proposals
- Department, school, central administrators that perform ARRA activities treated as indirect costs; ARRA Specialists indirect too



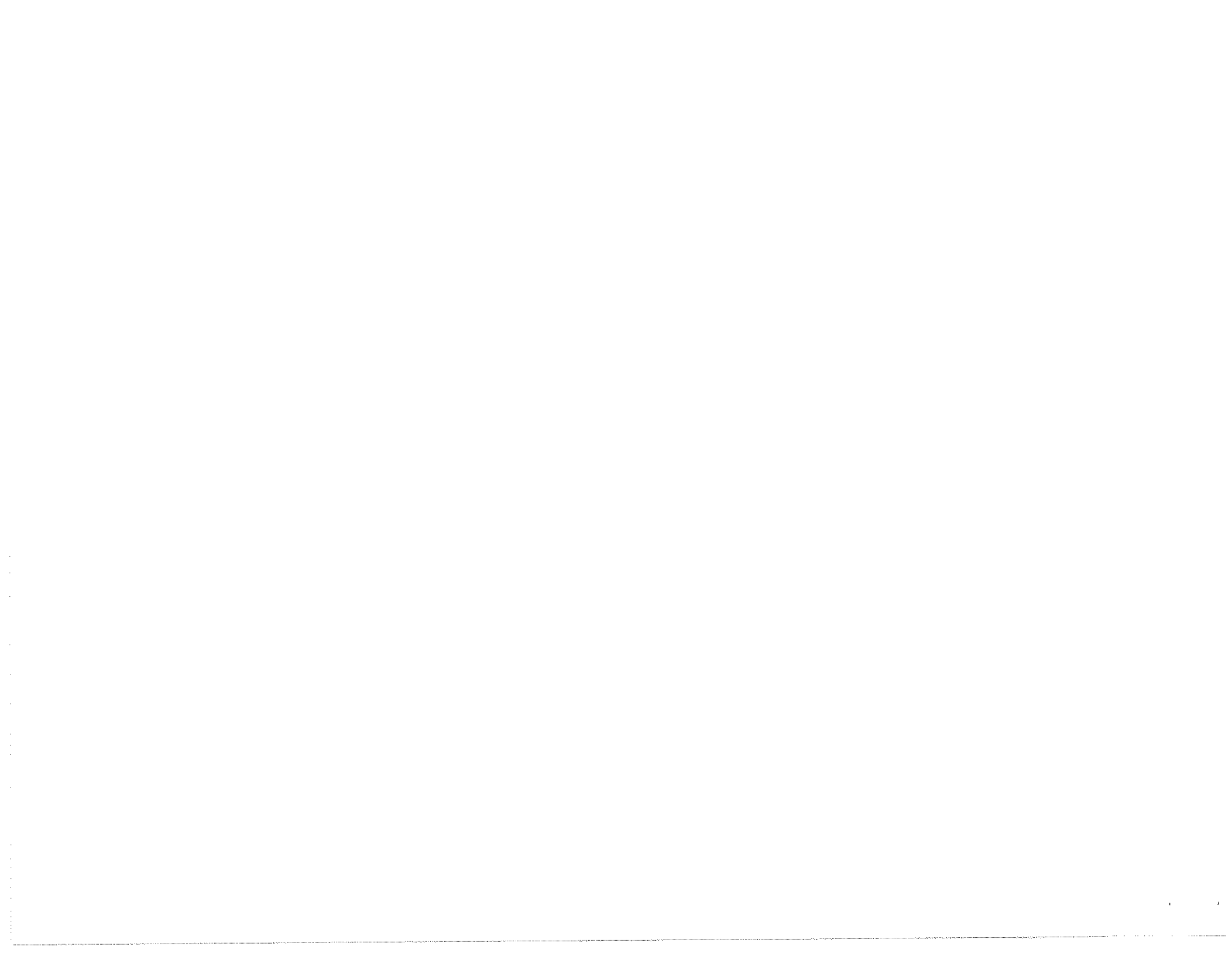
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ARRA Specialists: Direct or Indirect? ➤ ATTAIN

- **Harvard Position: Use of "specialists" dedicated to management of ARRA awards, and not performing "dept. administration," is consistent with federal regulations for direct-charging**
 - NIH Guidance (5/4/09): "Include "research administration specialists" in applications to work with Investigators on ARRA administrative requirements"
- **NIH FAQ ARRA grant budgets may not include administrative costs—**
 - ARRA requirements do not provide sufficient justification to support the provision of direct costs for administrative support in addition to the F&A costs in the awarded budget (citing A-21, F.6.b.(2))



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Yale Policy

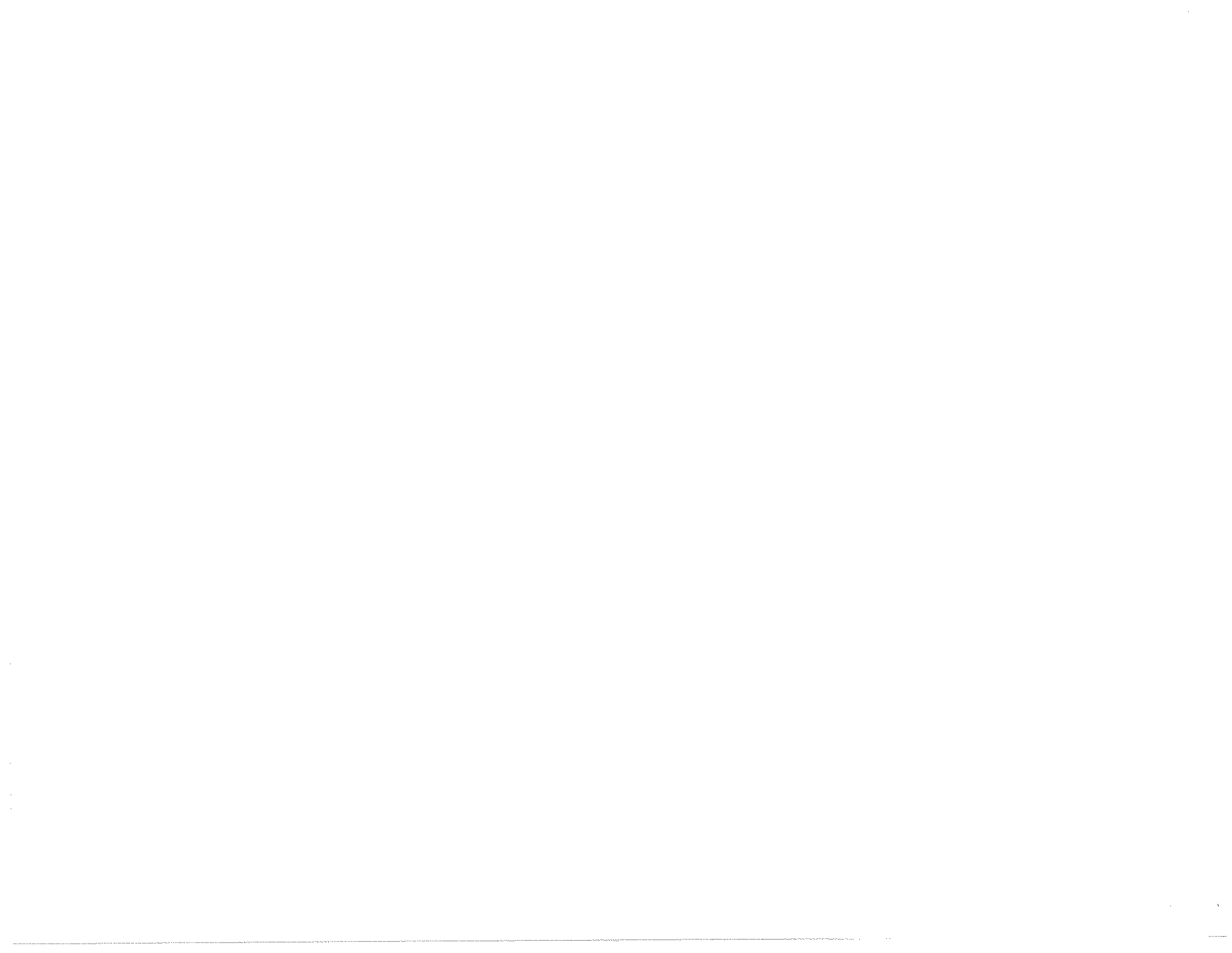
Direct Costing




➤ Policy Statement

- Under federal regulations and some sponsor requirements, departmental types of expenses including but not limited to administrative or clerical salaries, office supplies, postage, local telephone costs, photocopy costs, network charges, computers, cell phones, etc. should normally be treated as a Facilities and Administrative (F&A) cost and recovered through the F&A cost rate (also known as indirect cost rate).
- In exceptional circumstances where the nature of the work performed requires extensive departmental support (defined as an unlike circumstance) the cost may be treated as a direct charge.
- Administrative or clerical salaries and other general administrative costs must directly benefit and be easily identified with the particular sponsored project.







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➤ University policy for certain costs specific to direct costing

- The purchase of a laptop and other computers is an allowable expense as a direct charge to a federally funded sponsored project only in specific situations where the nature of the research requires a computer, e.g., the computer is attached to a piece of equipment and/or is required for collection and analysis of information/data.
- In order to maintain the allowability of computers charged directly to a federal award, the computer must be used primarily (at least 95%) on the award unless the purchase is otherwise prohibited/restricted by the sponsor.
- A computer may be allocated to one or more sponsored projects unless the sponsor's terms and conditions prevent such an allocation.
- The PI must conform to any specific restrictions or approval requirements of the sponsor and must assure that the computer would not be purchased but for the research.


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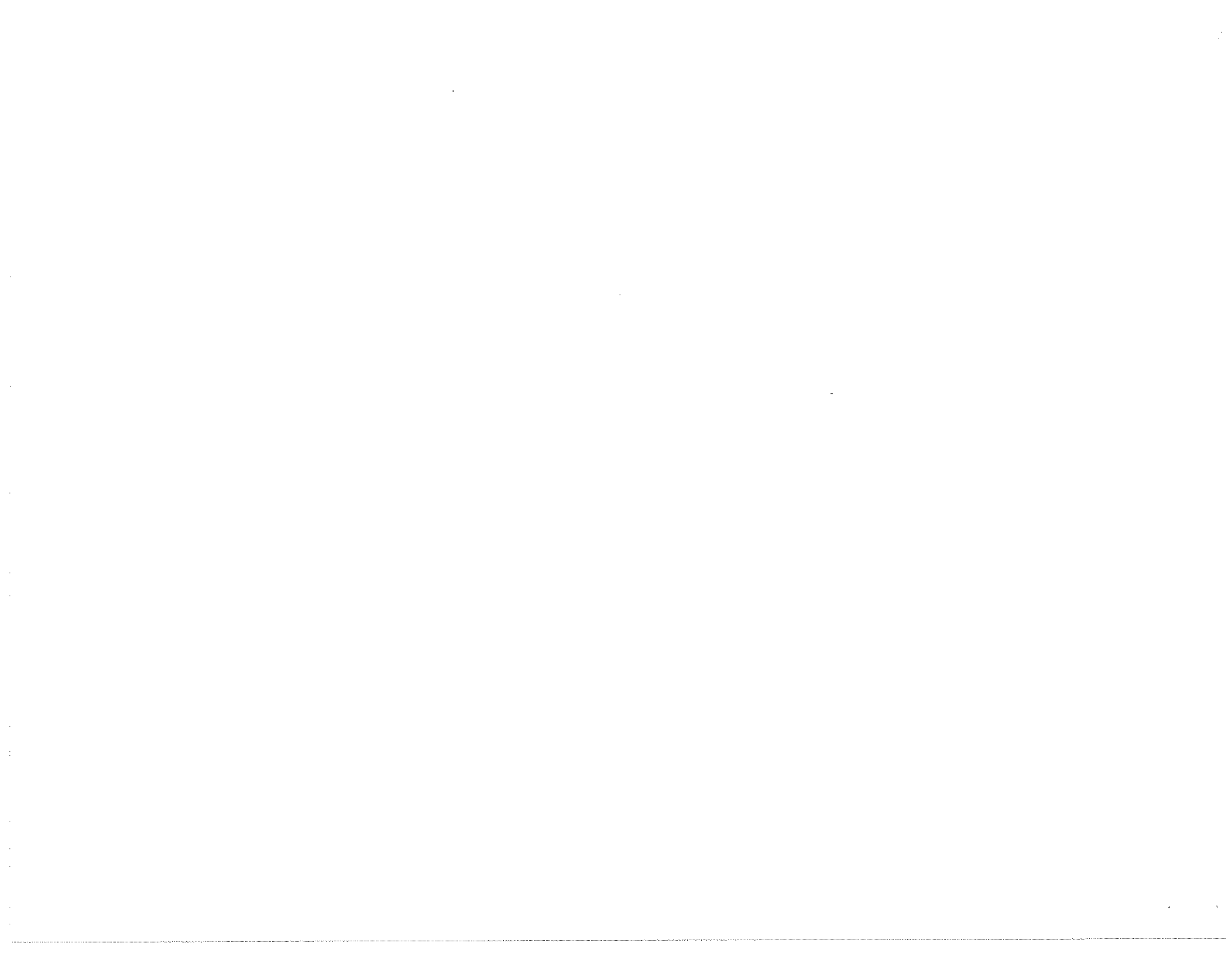
*Network
Computer
Charges.*

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➤ University policy for certain costs specific to direct costing (cont.)

- Telecom Infrastructure Bundle and ITS FTE Billing and ITS FTE Bundle charges may be appropriate in limited situations such as a dedicated server connection or hotline in order to accomplish the specific aims of the project(s).
 - Must be approved by GCFA in advance
 - Telecom Infrastructure Bundle, ITS FTE Billing and ITS FTE Bundles are to be treated as F&A costs and are not to be directly charged to federally sponsored awards.
 - As a normal course of business, these costs are not to be included in proposal budgets to sponsoring agencies.

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➤ Document, Document, Document

- Proactive documentation of direct cost exceptions begin during the development of the proposal budget.
 - Demonstrates proper planning, identification and justification of the expected unlike circumstance.
 - Provides early documentation of exception vs. justifications that may have an appearance of resulting from budgetary needs.
- Just because the proposal and budget result in a sponsored award, does not guarantee the approval of direct costing F&A type expenses.
- All exceptions to the policy must be sufficiently documented prior to charging any F&A type expense to a federal award.



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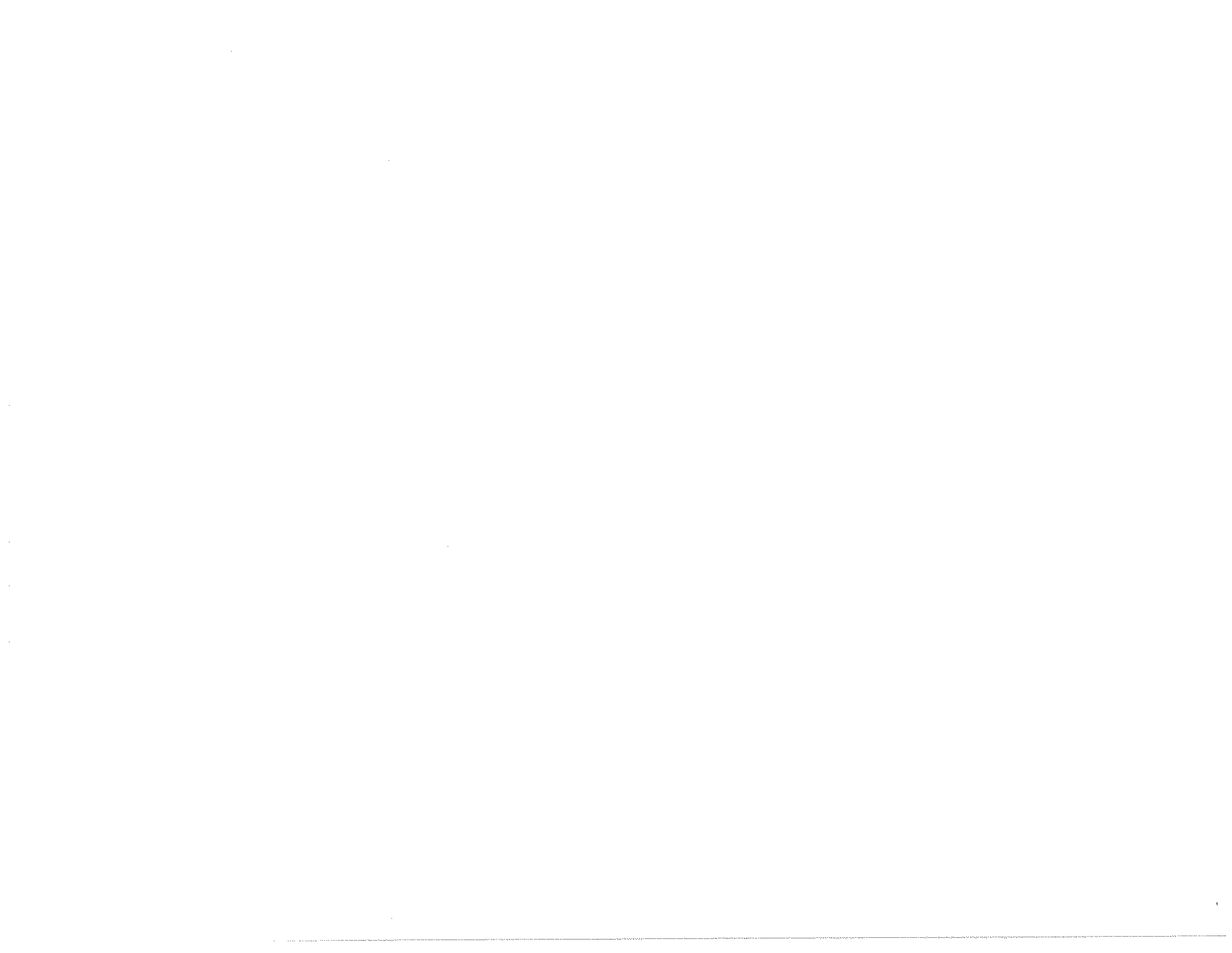


➤ Current Process

- High Risk Review portal reports for department administrators to review and document monthly as part of their monthly checklist processing
- During annual central reviews, the reporting group verifies the existence of documentation for any F&A expense charged to a Federal award.
- Quality Assurance Reviews performed on the direct charging of typical F&A type expenses
 - Specific expense reviews are conducted to ensure proper justification exists and are compliant with University policy
 - If not properly documented or does not meet policy, charges are removed centrally and charged to a departmental account.



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➤ **Future changes in process**

- Electronic CAS exception approval form, and
- Built-in system process flags and transactional controls for CAS exceptions
 - Allows for CAS exceptions to be approved within the financial accounting system.
 - Provides for a proactive review and approval of F&A types of expense prior to any expense posting to the award.
 - Offers the ability to track approval, store documentation, and documents workflow for the necessary approvals.



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Recent DHHS OIG Review issued August 2011:

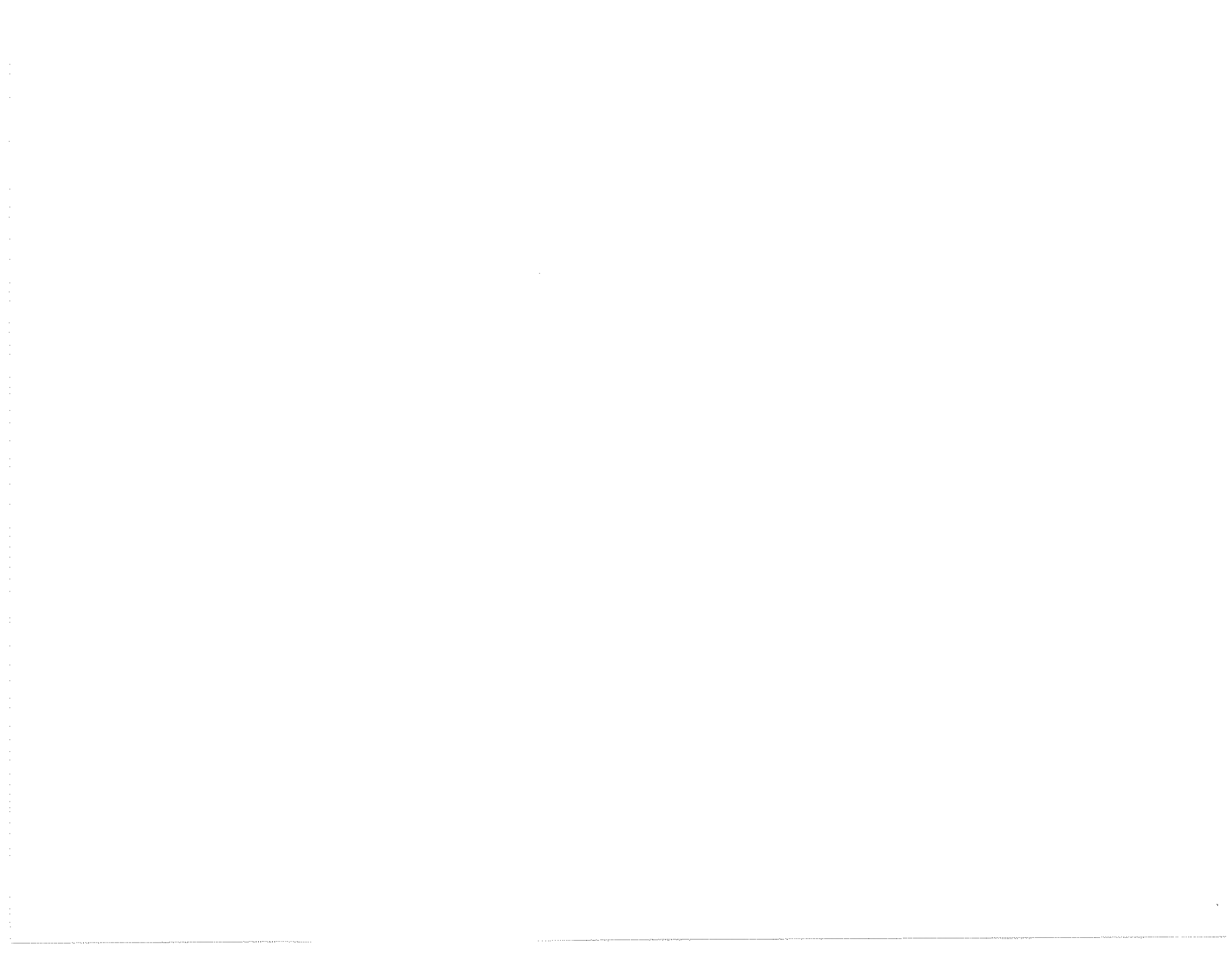
Review of administrative and clerical costs at Dartmouth College for fiscal years 2009 through 2010

➤ **RESULTS OF REVIEW**

- The College charged administrative costs (i.e., administrative and clerical salaries and other nonsalary administrative costs) in accordance with 2 CFR pt. 220, Appendix A. Specifically, the College complied with Federal regulations for 197 administrative cost transactions that it had charged directly to HHS during the audit period. These transactions were allowable as direct costs because they were charged to a major project, had unlike circumstances, or were directly related to or necessary to achieve the objectives or goals of the HHS grants or contracts. Accordingly, this report contains no recommendations.



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F6b Check-Up



➤ The Process

- Select a sample
- Document the charges
- Determine the errors
- Compare results to institution's tolerance for risk
- Corrective action plan

➤ Obtain senior level support

➤ Determine project team

➤ Obtain outside help if needed



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Select a Sample

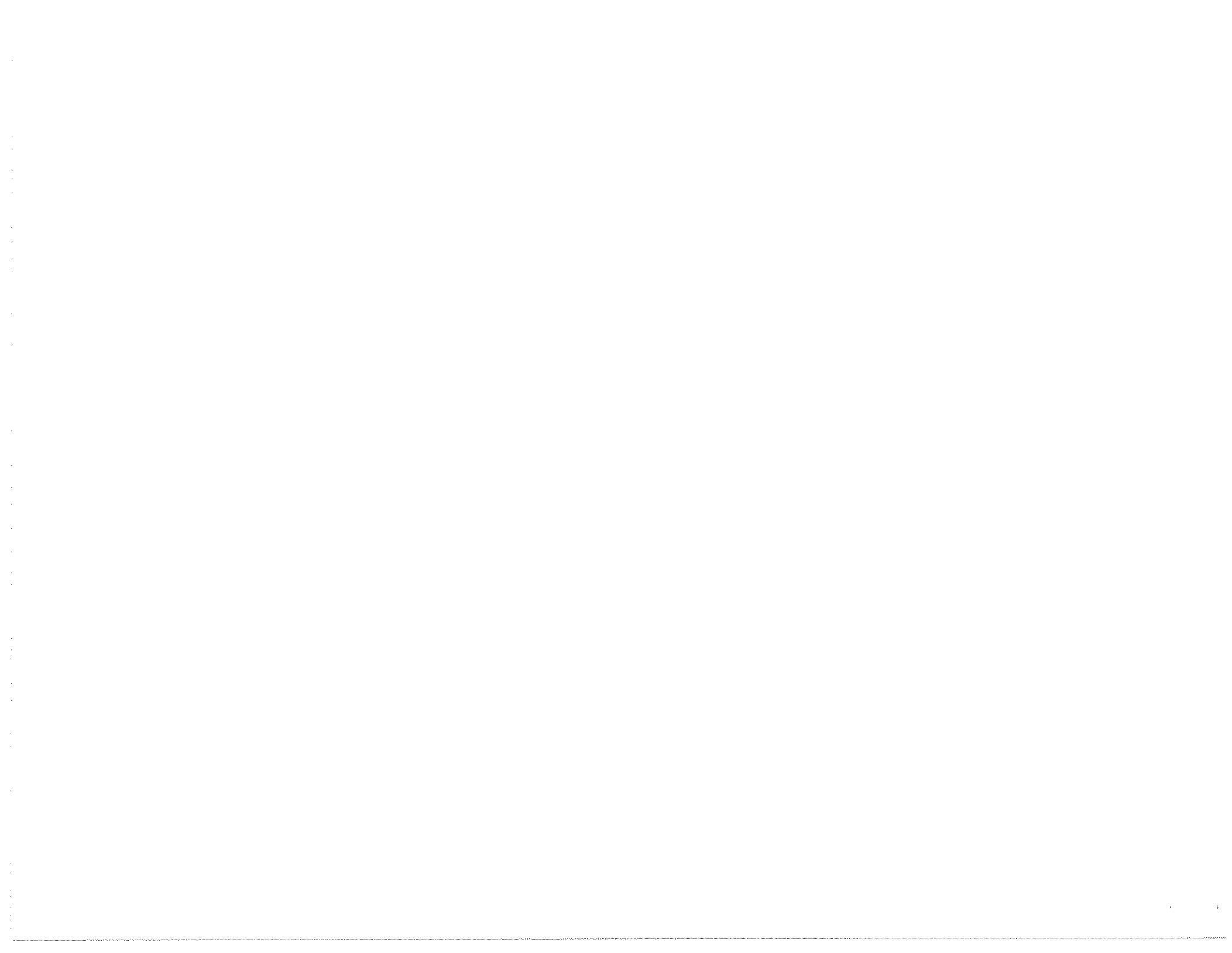


- Select a sample of 50-75 transactions from the population of salary and non-salary expenditures on grants and contracts over a selected period. You may want a slightly larger sample if your research volume is large if you think you are particularly vulnerable.

- Use a stratified judgmental sample rather than the stratified projectable sample method used by the OIG. Be sure to include departments and principal investigators you know to be problematic.



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Document the Charges



- Treat each sample as a separate audit with its own file and trail of documentation.
- Gather all supporting data available in the central offices i.e. pre- and post-award offices, human resources, payroll, purchasing, accounts payable, etc.
- Request additional information from the responsible academic department/principal investigator if needed.
- If still not satisfied, conduct a follow-up meeting with the department/principal investigator to ensure a clear understanding of the charge.



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Review the Documentation and Determine Errors



- For each sample, evaluate the responses and decide if the documentation justifies the charge.
- Clear those deemed to be appropriate and set aside.
- For those that appear to be problematic, determine if any additional information can be collected and from what source. Collect and evaluate if found.
- Either clear or mark as an error.



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Final Report



- Discuss your findings with the affected departments and principal investigators.
- Consolidate the data and determine the number of errors, the dollar amount, the percentage, and the extrapolated amount.
- Present your report to senior management and determine your institution's tolerance for risk.
- If your findings are outside your tolerance for risk, develop a corrective action plan.



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Closing



Questions and Wrap Up Discussion



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— Temperature Review (the —)