



Risk Management Issues Related to Grants and Contracts

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Your Presenters Today



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The Emerging New Risk Environment



- Where Are We Today?
- Research is a Risk
- Have you noticed a change?
- Growth In Research Funding
 - Accountability
 - Manage costs

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Costing Compliance



- 1947 - ONR reimbursed universities for indirect costs incurred for Navy contracts.
- 1958 - The Bureau of Budget introduced the famous Circular A-21
- 1966 - The Government made a commitment to fully reimburse universities for the cost of federally sponsored research
- 1979 - Circular A-21 revision introduced the MTDC concept
- 1991 - A-21 revision capped administrative components (GA, DA, SPA) @ 26%
- 1993 - A-21 Section F6b added
- 1996 - Circular A-21 revision introduces 1) Cost Accounting Standards (CAS) to all sponsored agreements
- 1999 - Costing Policy for Animal Research Facilities
- 2001 - Clarification on the treatment of cost sharing, voluntary versus committed
- 2006 - HHS - OIG initiates Administrative and Clerical Costing (F6b) audits
- 2009 - ARRA Funding
- 2011 - 2012 - A-21 Task Force OMB Notice on Reforms to Cost Principles and Administrative Requirements

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Focus on Direct Costs

- Whistleblowers
- Office of the Inspector General
- Fraud and Abuse
- Compliance Officers
- Technology and Reporting

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The Landscape is Getting More Complex:

- Research and Training projects
- Clinical Trials
- Subcontracts
- Human Subjects
- Payment Process
- Effort Reporting
- IP / Technology Transfer
- Cost Accounting Standards
- Administrative and Clerical Costs
- Salary Cap

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The Constituency:

- Faculty, Scientists, Staff, Students
- Administration
- Boards
- Federal Government
- Other Sponsors
- Human Subjects
- Advocacy groups


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What Areas are being Reviewed:

- Recharge Centers
- Extra Service Compensation and Effort Reporting
- Tuition and Fee Charging
- Sub recipient Monitoring
- Cost Transfers
- ARRA
- F6b – Indirect Costs Claimed as Direct Costs


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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 University of Florida
- 2011 – 8 Audits were initiated including:
 - ✓ Dartmouth
 - ✓ SUNY – Albany
 - ✓ Florida State University
 - ✓ The Ohio State University
 - Thomas Jefferson 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, contract, and other agreements with the NIH
- Scope Included Charges for Subawards, 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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Making Cancer History™


Risk Management

Leveraging Departmental and Central Office Relationships

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Background

Focus


- Research Enterprise Vs. Clinical and Operating Margin

Relationship

- Central Office, Division and Departments

Roles


- Titles, Job duties



Background

Environment

- Recent F.6b Audits
- Regulatory framework and increasing accountability
- Internal resources



What the Division wanted?

Divisional Initiative

- Resource for departments
- Role in managing expectations and relationships
- Objective advocate
- Self assessment
- Departmental compliance audits

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What we did?

Departmental Self Audits

- Methodology and approach
- Audit calendar
- Communication
- Divisional engagement

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What we did?

Departmental Self Audits


- Proposals
- Effort reporting
- Personnel and other direct cost
- Departmental practices – direct charging
- Justifications and interviews

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What we found?

Departmental Self Audits


- Knowledge gaps
- Process gaps
- Misplaced / Mismanaged expectations
- Resource considerations
- Need for training and education
- And some other things!



Enter Compliance

Risk management


- Exposure
- Manage information exchange
- Engagement letter
- Shift from informal to formal approach



Where things stand?

Risk management

- Now part of Institutional Compliance Plan
- Engagement is formal
- Written reports, responses & corrective action plans
- Changing perspective and shifting ownership
- Institutional and central office practices adequately support compliance with federal regulations
- Recent institutional audit had no recommendations

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Results of Non-Compliance:

- Cost Disallowances
- Loss of expanded authorities
- Loss of funding
- Negative publicity

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Corrective Action Plans:

- Culture
- Revise Roles and responsibilities
- Policies and Procedures
- Training
- Monitoring

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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, Document, Document

- Treat each sample as a separate audit with its own file and trail of documentation.
- First, 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

- 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 # 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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- Research is Risk
- Get support at every level of Administration (incl. Academic and Research)
- Review all the key exposure areas at least annually. Is the audit enough?
- If you find a problem, determine extent, develop a corrective action plan and if required notify cognizant agency

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Closing



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