



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

AUG 23 2005

Office of Audit Services
Region I
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Report Number: A-01-04-01505

Mr. Stephan W. Lenhardt
Vice President for Management and Fiscal Affairs
and Treasurer
University of Massachusetts
One Beacon Street – 26th Floor
Boston, Massachusetts 02108

Dear Mr. Lenhardt:

Enclosed are two copies of the Office of Inspector General, Office of Audit Services report entitled "University of Massachusetts Medical School, Review of NIH Grant No. 5 R01 GM30626-22," for the period from July 1999 through June 2003.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response would present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Report Number A-01-04-01505 in all correspondence relating to this report.

Sincerely,

A handwritten signature in cursive script that reads "Michael J. Armstrong".

Michael J. Armstrong
Regional Inspector General
For Audit Services

Enclosures - as stated

Direct Reply to HHS Action Official:

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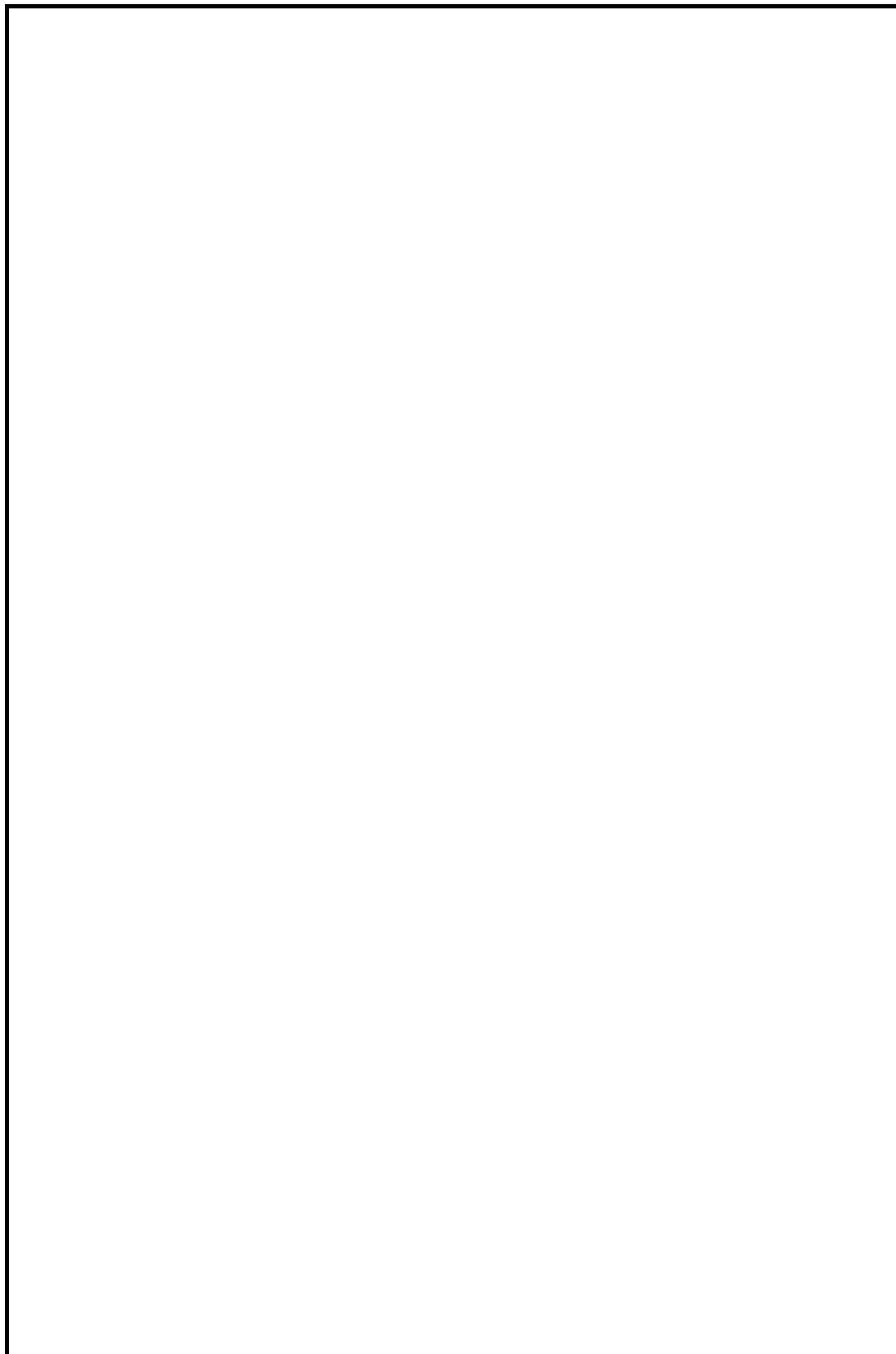
**OFFICE OF
INSPECTOR GENERAL**

**UNIVERSITY OF
MASSACHUSETTS MEDICAL
SCHOOL
REVIEW OF NIH GRANT NO.
5 R01 GM30626-22**



DANIEL R. LEVINSON
Inspector General

August 2005
A-01-04-01505



Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

The National Institutes of Health (NIH), National Institute of General Medical Sciences (NIGMS) grant number 5 R01 GM30626 (years 19 through 22), entitled “Molecular Mechanism of Flagellar Motility,” provided the University of Massachusetts Medical School (the University) with \$1.72 million in research funds for the 4-year period July 1999 through June 2003. This grant funds research on a wide range of human diseases, including immotile cilia syndrome, retinitis pigmentosa, and Usher syndrome. The last budget year of this segment marks the 22nd year that NIH has funded research under this grant.

The University uses the plan confirmation method of payroll distribution, as described in the Office of Management and Budget (OMB) Circular A-21. Under the University’s method, salaries and wages are initiated through a personnel action form (PA). The PA captures information regarding employees’ department, account, begin and end dates, and salary and wage distribution, including planned distribution of salary and wages to sponsored agreements. The PA is used to change distribution between accounts, increase or decrease salary levels, and initiate retroactive payroll adjustments. OMB requires that institutions that use the plan confirmation method prepare at least annually a statement signed by the employee, PI, or a responsible department official who is able to verify that the work was performed.

OBJECTIVE

Our objective was to determine whether the University claimed allowable costs under the terms of the grant and applicable Federal regulations set forth in OMB Circulars A-21 and A-110.

SUMMARY OF FINDINGS

During the project period from July 1, 1999 through June 30, 2003, the University claimed \$281,993 in costs that did not comply with OMB Circulars A-21 and A-110. (See Appendix A.) Of this total:

- \$193,682 was in unsupported nonlabor costs and related indirect costs representing recharge center and laboratory supply center charges of \$121,710, and cost transfers of \$71,972; and
- \$88,311 was in overstated labor and related fringe and indirect costs representing efforts related to other sponsored research projects of \$50,681, undocumented cost

transfers of \$21,303, and inaccurate and untimely filing of financial status reports of \$16,327.

These overcharges were attributable to inadequacies in record retention policies, cost transfer documentation, payroll distribution, and the financial management system.

In addition, we identified internal control weaknesses related to (i) a lack of compliance with University procedures for charging grant application activity, and (ii) a grants management process that did not adequately identify significant unobligated balances and provide NIH with the required explanation of these balances.

RECOMMENDATIONS

We recommend that the University:

- revise procedures to ensure that accounting records are supported by source documents and retained as required by Federal regulations;
- comply with NIH and University requirements to provide a timely and detailed explanation and related documentation on transfers;
- improve its payroll distribution system to ensure that changes to planned activities are identified, annual certifications procedures specify the means for verifying the actual work performed, and certifications are completed timely;
- improve procedures to ensure that the financial status reports that it submits are accurate and timely and correct its final financial report;
- improve its payroll distribution system to ensure that grant application activity is properly identified and accounted for;
- work with NIH to provide a reasonable adjustment to NIH grants for all improperly recorded grant application activity;
- improve its procedures for identifying and notifying NIH of unobligated balances exceeding 25 percent of the total award for the prior year; and
- refund \$281,993 to NIH in overstated and/or unsupported costs.

UNIVERSITY'S COMMENTS

In its July 19, 2005, response to our draft report, which is included in Appendix B of this report, the University agreed with our recommendations for improving procedures to ensure timely submission of financial reports and effort certifications. The University did not concur with the other recommendations in the report. For nonlabor costs, the University maintained that documentation for both recharge and laboratory supply center costs and cost transfers is sufficient and that no refund to NIH is necessary. For overstated labor costs, the University stated that its payroll distribution system is adequate to identify changes to planned activities and that no adjustments are needed for effort to other sponsored projects. The University also claimed that amounts associated with a cost transfer were adequately supported. Although the University stated that it had initiated improvements to ensure timely submission of its financial status reports to NIH, it did not agree that out-of-period costs should not be included in these reports. Finally, the University disagreed with our findings on internal control weaknesses related to grant application activity and the reporting of unobligated balances.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We believe that the disallowances that we recommended and the internal control weaknesses that we identified accurately reflect the extent of the University's failure to comply with Federal regulations, NIH policies, and University policies and procedures. We continue to believe that the financial adjustments are warranted.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Funding for Medical Research.....	1
University Payroll Distribution System	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Objective	1
Scope	1
Methodology	2
FINDINGS AND RECOMMENDATIONS	2
NONLABOR COSTS	3
Recharge and Laboratory Supply Center Costs	3
Cost Transfers	4
Recommendations	4
University’s Comments.....	5
Office of Inspector General’s Response	5
OVERSTATED LABOR COSTS	7
Effort Identified to Other Sponsored Research Projects	7
Cost Transfers	8
Reporting Accurate and Timely Financial Status Reports	9
Recommendations	9
University’s Comments.....	10
Office of Inspector General’s Response	11
INTERNAL CONTROL WEAKNESSES	13
Grant Application Activity	13
Reporting Unobligated Balances.....	14
Recommendations	15
University’s Comments.....	16
Office of Inspector General’s Response	16
APPENDIXES	
A – SUMMARY OF RESULTS BY COST CATEGORY	
B – UNIVERSITY COMMENTS	

INTRODUCTION

BACKGROUND

Funding for Medical Research

The National Institutes of Health (NIH), National Institute of General Medical Sciences (NIGMS) grant number 5 R01 GM30626 (years 19 through 22), entitled “Molecular Mechanism of Flagellar Motility,” provided the University of Massachusetts Medical School (the University) with \$1.72 million in research funds for the 4-year period from July 1999 through June 2003. This grant funds research on a wide range of human diseases, including immotile cilia syndrome, retinitis pigmentosa, and Usher syndrome.

The 4-year grant project segment was competitively awarded. The last budget year of this segment marks the 22nd year that NIH has funded research under this grant. The principal investigator (PI) for this grant is a faculty member in the University’s Cell Biology Department (the Department).

University Payroll Distribution System

The University uses the plan confirmation method of payroll distribution, as described in the Office of Management and Budget (OMB) Circular A-21. Under the University’s method, salaries and wages are initiated through a personnel action form (PA). The PA captures information regarding employees’ department, account, begin and end dates, and salary and wage distribution, including planned distribution of salary and wages to sponsored agreements. The PA is used to change distribution between accounts, increase or decrease salary levels, and initiate retroactive payroll adjustments. OMB requires that institutions that use the plan confirmation method prepare at least annually a statement signed by the employee, PI, or a responsible department official who is able to verify that the work was performed.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective

Our objective was to determine whether the University claimed allowable costs under the terms of the grant and applicable Federal regulations set forth in OMB Circulars A-21 and A-110.

Scope

Our review covered the period from July 1, 1999, through June 30, 2003. We limited our review of internal controls to the processes that the University used to claim costs for Federal reimbursement.

We performed our fieldwork between April 2004 and February 2005 at the University of Massachusetts Medical School in Worcester, Massachusetts.

Methodology

We used applicable Federal regulations and University policies and procedures to determine if the amounts claimed met reimbursement requirements. In addition, we obtained detailed ledger transaction listings, personnel action forms, annual effort certifications, personnel records, and purchasing records and supporting documents to perform audit tests of various cost categories.

During our review, we:

- reviewed grant applications and grant and budget award documents for pertinent terms and conditions;
- reconciled costs claimed by the University with supporting accounting records;
- reviewed charges distributed under payroll distribution procedures and reconciled salary and wage charges with supporting personnel action forms and annual effort certification reports;
- interviewed selected individuals;
- reviewed purchasing and recharge center procedures and tested and verified selected direct costs (i.e., materials, supplies, equipment, and recharge center charges); and
- verified the basis for University-applied overhead and fringe benefit rates approved by the Department of Health and Human Services, Division of Cost Allocation.

We conducted our review in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

During the project period from July 1, 1999, through June 30, 2003, the University claimed \$281,993 in costs that did not comply with OMB Circulars A-21 and A-110. (See Appendix A.) Of this total:

- \$193,682 was in unsupported nonlabor costs and related indirect costs representing recharge center and laboratory supply center charges of \$121,710, and cost transfers of \$71,972; and

- \$88,311 was in overstated labor and related fringe and indirect costs representing efforts related to other sponsored research projects of \$50,681, undocumented cost transfers of \$21,303, and inaccurate and untimely filing of financial status reports of \$16,327.

These overcharges were attributable to inadequacies in record retention policies, cost transfer documentation, payroll distribution, and the financial management system.

In addition, we identified internal control weaknesses related to (i) a lack of compliance with University procedures for charging grant application activity, and (ii) a grants management process that did not adequately identify significant unobligated balances and provide NIH with the required explanation of these balances.

NONLABOR COSTS

Recharge and Laboratory Supply Center Charges

OMB Circular A-21, Section C.4.a, states, “A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

OMB Circular A-110, Subpart C.21(b), states, “Recipient financial management systems shall provide for accounting records...that are supported by source documentation.” Further, Subpart C.53(b) requires that “financial records, supporting documents,...and all other records pertinent to an award, shall be retained for a period of 3 years from the final expenditure report.”

Our review of 47 selected charges from two recharge centers and an internal laboratory supply cost center from July 1, 1999, through June 30, 2003, disclosed that the charges were not supported by adequate source documentation. The two recharge centers, the animal care and nucleic acid facilities, accounted for a substantial amount of the charges. We could not determine who requested the recharge center services or laboratory supply charges and whether these costs were allocable to the NIH grant. University procedures require that all charges be supported by requisitions specifying the goods or services ordered, the date of the order, the project number, and the individuals who initiated and authorized the order. However, University officials stated that these documents had not been retained.

The University did not comply with Federal requirements to ensure that (i) accounting records are supported by source documents, and (ii) records are retained for 3 years after the date of the final financial status report. Because of the lack of supporting documentation, we have questioned the grant charges from the two recharge centers and the internal laboratory supply cost center for the 4-year period totaling \$121,710 (\$78,019 in unsupported costs and \$43,691 in related indirect costs).

Cost Transfers

NIH policy states that grantees who transfer costs from other projects to NIH grants must provide and maintain documentation that fully explains why the transfer was necessary. Merely stating that the transfer was made "to correct error" or "to transfer funds to correct project" is not sufficient. Frequent errors in recording costs may indicate a need for improving the accounting system or strengthening internal controls.

OMB A-21, Section C.4.b, states that any costs allocable to a particular sponsored agreement may not be shifted to other sponsored agreements 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.

University procedures require that cost transfers be accomplished within 90 days of the original transaction and accompanied by a detailed explanation of why the transfer was necessary. This explanation should be supported by appropriate documentation and signed by the PI, the department administrator, and the grant accounting office.

We found that 11 of 88 transactions selected for testing from the period July 1, 1999, through June 30, 2001, were related to three journal entries representing costs transfers without detailed explanation. The University used these journal entries to transfer significant costs to this grant from another NIH grant. The cost transfers were not accomplished within 90 days of the original transaction. The three journal entries occurred over 2 fiscal years in May 2000, September 2000, and October 2000. The three entries contained transfers of original transactions from 15 different months going back to December 1998. The cost transfers consisted of chemicals, gases, and office supplies purchased from outside vendors and charges from an internal animal care facility and a laboratory supply cost center.

The University did not transfer costs on a timely basis or comply with Federal and University requirements for fully explaining and documenting the errors that necessitated the transfer of costs to this grant. The absence of a detailed and documented explanation prevented us from determining whether the costs transferred to this grant by the three journal entries were allocable, allowable, and reasonable. Accordingly, we have questioned the \$71,972 (\$46,136 in costs transferred and \$25,836 in related indirect costs) related to these three entries.

Recommendations

We recommend that the University:

- revise procedures to ensure that accounting records are supported by source documents and retained as required by Federal regulations,
- comply with NIH and University requirements to provide a timely and detailed explanation and related documentation on cost transfers, and

- refund \$193,682 to NIH to cover recharge center and laboratory supply center charges of \$121,710, and cost transfers of \$71,972.

University's Comments

Recharge and Laboratory Supply Center Charges

The University stated that all recharge center charges are supported by detailed invoices that specify the services and charges. The University does not require these recharge centers to retain requisitions specifying the goods or services ordered once the invoices have been received and the department receiving the charges has had the opportunity to review them. The University also stated that it had provided the auditors with copies of all of these invoices.

The University acknowledges that it was unable to provide copies of certain invoices from the UMass Memorial Lab Supermarket, a lab supply warehouse independently operated by the UMass Memorial Hospital. The total dollar value of these missing invoices was \$1,527. Thus, the University concedes that, of the \$121,710 questioned by the auditors, \$2,383 (\$1,527 in direct costs and \$855 in indirect costs) is not adequately documented. The University also maintains that this instance is an isolated case of misplaced documentation and in no way constitutes an admission that internal controls need to be strengthened or that costs were not allocable to a particular cost objective.

Cost Transfers

The University did not agree that the cost transfers to the grant were not timely and lacked detailed explanation. The University provided copies of cost transfer documents signed by the PI as documentation of these charges. The University maintains that the PI's signature on these documents serves as support that these expenses are allocable, allowable, and reasonable charges to this grant. Furthermore, the University states that all of the charges in question were made to correct errors and thus do not fall within the University's 90-day limit for cost transfers. Accordingly, the University believes that it complied with NIH and UMMS policy and that no refund is necessary.

Office of Inspector General's Response

Recharge and Laboratory Supply Center Charges

The University did not maintain adequate supporting documentation for any of the 47 charges totaling \$53,303 selected for review from two recharge centers and a laboratory supply cost center. Of these 47 charges, 14 charges totaling \$18,478 were cost transfers and are discussed separately on pages 6 and 7. The University did not maintain purchase requisitions for any of the remaining 33 charges. Of these 33 charges totaling \$34,825, 24 were not supported by invoices, and the 9 charges that were supported by invoices did not contain the PI's approval for payment and/or the dates of the service. The lack of PI

approval on invoices was a recurring deficiency cited in the University's FY 1999, FY 2000, and FY 2001 A-133 audit reports. Furthermore, seven of the nine invoices did not contain the project or account number to be charged.

In its response, the University strongly believes that it has adequate procedures in place. As such, the University does not require these recharge centers to retain requisitions specifying the goods or services ordered once the invoices have been received and the department receiving the charges has had the opportunity to review them. We found that the University's procedures were not adequate. This inadequacy is also illustrated in the next section on cost transfers.

The University acknowledged that it was unable to provide invoices for \$1,527 in supplies from the UMass Memorial Lab Supermarket, which we have classified as a laboratory supply cost center. However, included in the 33 charges without adequate documentation are 10 charges totaling \$6,000 from this laboratory supply cost center. Although we have requested requisitions, orders, invoices, and receipts for these 10 charges, the University has not provided any of this documentation as of August 5, 2005. These 10 charges provide clear evidence that this was not an isolated incident of misplaced documentation, as the University claims, and that the University's internal controls need to be strengthened.

Because of the lack of adequate supporting documentation for the selected charges, we have questioned all costs claimed related to the two recharge centers and the laboratory supply center. The University should refund NIH a total of \$121,710.

Cost Transfers

The costs transfers claimed by the University do not comply with NIH or University policies. University policies and procedures state, "To be allowable, cost transfers must be timely, documented, and explained in detail...." Furthermore, University procedures state that only in exceptional circumstances will cost transfers be permitted more than 90 days after the original transaction. The procedures require that cost transfers outside of this 90-day limit be documented in detail and signed by the PI.

The three journal entries that transferred costs to this NIH grant did not explain any unusual or exceptional circumstances that would allow these transfers to exceed the 90-day limit. The University also does not explain how it determined that these charges were incorrect and why it took so long to discover the numerous errors. The cost transfers consisted of 99 transactions with related amounts that were charged between December 1998 and March 2000. These transactions were not adequately documented with supporting purchase requisitions, purchase orders, and invoices to identify who requested and approved the original charges. A detailed explanation is required to provide assurance that the costs transferred are allowable under this grant.

The cost transfers also included significant charges from an internal animal care facility (account 5319) and laboratory supply cost center (account 5301) that are in addition to the

costs recommended for disallowance in the above finding on Recharge and Laboratory Supply Center Charges. In its response to our disallowance on Recharge and Laboratory Supply Center Charges, the University stated that it has adequate procedures in place to ensure that accounting records were supported by source documents. If, in fact, goods and services related to the unretained requisitions were properly ordered and approved, and the department has had the opportunity to review the invoices, we do not understand why so many transactions needed to be corrected. The required detailed explanation of these charges should include a discussion of how the University's adequate controls allowed incorrect charges to another NIH grant to be repeated for so long.

OVERSTATED LABOR COSTS

Effort Identified To Other Sponsored Research Projects

OMB A-21, Section J.8, states that an employee's salary and wages that are chargeable to more than one sponsored agreement or other cost objective will be apportioned by methods that will equitably distribute charges for the employee's activities and distinguish direct activities from indirect activities. The system will provide for an employee's salary distribution to be modified if the employee's work activity changes significantly. The method of distribution must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs. Direct and indirect (facilities and administrative) cost activities must be confirmed by the employee, the PI, or a University official who can verify that the work was performed.

As mentioned in the Background section, the University initiates the distribution of salaries and wages through a PA form. The PA is also used to change distribution between accounts. In addition, the University requires that an annual effort survey is completed and dated by a responsible department official who is able to verify that the work was performed.

We found three instances where researchers worked on non-Federally sponsored research or another NIH grant but did not record this effort:

- In FY 2001, the PI applied for and received a \$10,000 sponsored research grant from a private charity foundation. The FY 2001 grant specifies that the funds must be used for research on "Intraflagellar Transport and Mammalian Spermatogenesis." Otherwise, the funds should be returned to the foundation. The research was to be undertaken by the PI and an associate. The grant was awarded on December 1, 2000, and required a report on the research results within 6 months. The PI issued a progress report on November 9, 2001. However, the payroll distribution system never accounted for any of the effort devoted to this grant.
- In FY 2002, the University applied for and received another grant for \$12,000 from the same foundation. The application indicated that the PI and two associates would undertake the research. The grant restricted the funds for use on research

and required a report within 6 months. Once again, however, this effort was not accounted for in the payroll distribution system.

- In the third instance, the PI's research assistant was awarded a new NIH research grant starting June 1, 2001. However, the assistant continued to charge 100 percent of his activity to the other NIH grant even after he received his own grant. Our discussions with the research assistant disclosed that he began work immediately on his new NIH grant on June 1, 2001. Our review of his personnel action forms and annual effort certification revealed that neither of these documents had been adjusted to reflect his actual activity on the new grant in June 2001. As a result, 100 percent of his salary of \$4,200 for June 2001 was charged to the wrong NIH grant. This error was corrected beginning on July 1, 2001.

Annual effort reports are reviewed and certified by a department administrative official. For the project year ended June 30, 2003, this official was responsible for performing the annual effort certifications for over 240 employees. The University's effort certifications show no evidence of discussions with employees or their supervisors and are not dated when completed as required.

The University's payroll distribution system did not always identify and account for changes to planned activities and did not have adequate annual effort certification procedures that specify a suitable means for a responsible person other than the employee or PI to use to verify the actual work performed.

As a result, the University overstated salaries and wages to the NIH grant by \$50,681 (consisting of \$26,200 in salaries and \$24,481 in related fringe benefits and indirect costs).

Cost Transfers

NIH policy states that grantees who transfer costs from other projects to NIH grants must provide and maintain documentation that fully explains why the transfer was necessary. Merely stating that the transfer was made "to correct error" or "to transfer funds to correct project" is not sufficient. Frequent errors in recording costs may indicate a need for improving the accounting system or strengthening internal controls.

Furthermore, OMB A-21, Section C.4.b, states that any costs allocable to a particular sponsored agreement may not be shifted to other sponsored agreements 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.

University procedures require that cost transfers be accomplished within 90 days of the original transaction and accompanied by a detailed explanation of the error that necessitated the transfer. This explanation should be supported by appropriate documentation and signed by the PI, the department administrator, and the grant accounting office.

The University initiated a cost transfer of \$11,013 in salaries to the NIH grant 4 months after the fact without the documentation and detailed explanation required by Federal regulations and University procedures. We found that this transfer related to an employee whose efforts during the 4-month period were originally charged 100 percent to University-funded accounts. Subsequently, these salaries were transferred 100 percent to the NIH grant.

Because the University did not comply with Federal and University requirements to provide a detailed explanation for cost transfers, the University's claim is overstated by \$21,303 (consisting of \$11,013 in salaries and \$10,290 in related fringe benefits and indirect costs).

Reporting Accurate and Timely Financial Status Reports

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Nonprofit Organizations, Subpart C, Post-Award Requirements:

- in Subpart C.21,(b), states that recipient financial management systems shall provide for accurate, current, and complete disclosure of the financial results of each Federally sponsored project; and
- in Subpart C.52(a), states that the Federal awarding agency shall require recipients to submit the final financial status report (FSR) (Form SF 269) no later than 90 days after the end of the budget year.

The University did not submit an accurate and timely FSR. The final FSR submitted on January 4, 2004, did not comply with the Federal requirement for timely submission within 90 days after the project close date of June 30, 2003. In addition, the University charged the NIH grant for \$8,440 in salary costs incurred after the grant closing date. These salary amounts represented effort expended during the following grant project segment that began July 1, 2003. A personnel action form was initiated on September 19, 2003, to retroactively charge this salary to the new grant project number beginning on the effective date of July 1, 2003. However, the salary overcharges were not adjusted on the University's final FSR as required.

The University did not have adequate procedures to ensure that its financial management system provided accurate, current, complete, and timely financial reports for each Federally sponsored project. As a result, the University submitted an FSR that contains an overstatement of \$16,327 (consisting of \$8,440 in salaries and related fringe benefits and \$7,887 in indirect costs).

Recommendations

We recommend that the University:

- improve its payroll distribution system to ensure that changes to planned activities are identified, annual effort certification procedures specify the means for verifying the actual work performed, and certifications are performed timely;
- comply with Federal and University requirements to properly document and explain all cost transfers;
- improve procedures to ensure that the FSRs that it submits are accurate and timely and correct its final FSR; and
- refund \$88,311 to NIH (\$50,681 in overstated salaries and wages and related fringe benefits, \$21,303 in undocumented cost transfers, and \$16,327 in overstatements on its FSR).

University's Comments

Effort Identified To Other Sponsored Research Projects

The University did not agree that it had overstated salaries and wages and related fringe benefits by \$50,681 on this grant because of changes to planned activities that were not identified and accounted for.

The University stated that the \$22,000 received from the private charity was used to purchase materials and supplies for the NIH grant. The funds were not provided to support a separate project. Consequently, no effort was associated with this private grant; all effort was on GM30626. The University's response includes an e-mail from the PI dated March 15, 2005, that supports this claim.

The University maintained that the charge to this grant for the research assistant's effort in the month of June is correct because the research assistant did not begin work on his new grant until July 2001. The University's response includes an e-mail dated March 16, 2005 from the research assistant explaining the situation. Accordingly, the University believes that the charges of \$4,200 are allowable and allocable to GM30626.

The University stated that its payroll system, including its annual effort certifications, requires responsible officials to review the charges to their grants at least annually and whenever a significant change in effort occurs. Through training sessions and instructions, departmental staff is instructed that officials who sign all annual effort certifications must have suitable means of verifying that the work was performed. The University agreed with our recommendation to ensure that future certifications are dated as required.

Cost Transfers

The University did not agree that a cost transfer of \$21,303 in salaries, fringe benefits, and other applicable indirect costs to this grant was unallowable because it was not accompanied by a detailed explanation of the need for the transfer. The University stated

that it had provided a copy of a fully executed, signed personnel action form for the period January 1, 2001, through April 24, 2001, documenting that the research assistant devoted 100% of his effort to this research grant, as was also recorded in the PI's progress report. The University believes that this documentation and clarification supports the salary and fringe costs of \$21,303 as allowable and allocable charges to this grant. Accordingly, the University does not believe a refund is required.

Reporting Accurate and Timely Financial Status Reports

The University agreed with our finding that the final FSR was not submitted within 90 days of the project close date as required. Within the past year, the University has established procedures to monitor and ensure timely submission of FSRs.

The University also agreed with our finding that \$8,440 of salary for the research technician for the period June 1, 2003, through October 4, 2003, was charged to the incorrect grant segment. The University stated that a personnel action form was completed in September 2003 to move the technician to the new grant year, but the required retroactive adjustment was inadvertently overlooked. However, the University claims that 100 percent of the research technician's effort was devoted to grant GM30626, regardless of the segment, and is therefore an allowable cost.

Office of Inspector General's Response

Effort Identified To Other Sponsored Research Projects

The University's payroll distribution system was not adequate to identify and account for changes to planned activity. The University provided us with inconsistent responses as to how the \$22,000 from the private charity foundation was accounted for. When initially questioned in December 2004, the PI stated that the funds were used to purchase supplies for the NIH grant. This use of funds violates the terms of the privately sponsored grants. We then requested documentation to support this statement. Specifically, we requested the project number established to accumulate costs under the private foundation grant. We also requested a ledger transaction listing of the materials and supplies purchased. To date, the University has not provided any of this information. Following our request, University officials informed us on April 4, 2005, that the PI's initial statement was incorrect and that the private funds had not yet been spent.

We then requested information on how the University accounted for the research effort on this private grant in the progress report. University officials stated that the results contained in the progress report are based on the NIH grant results and that both grants were for the same research. Federal regulations require that salaries chargeable to more than one sponsored agreement be apportioned by methods resulting in equitable distribution of charges. However, our review of personnel action forms and annual effort reports as certified by the department administrator for the 4-year grant project period disclosed no instances where researchers charged their efforts to the private foundation grant.

The University's response regarding the research assistant's effort in June 2001 is inconsistent with the results of our interview with this researcher in December 2004. During that interview, the researcher stated that he had only worked on the PI's grant until he was awarded his own grant, his first as a PI, on June 1, 2001. He also told us that he had needed little transition time because NIH had notified him of the grant award in advance of the issue date.

We contend that the University should improve its payroll distribution systems as stated in our recommendations and refund NIH \$50,681 for overstated labor costs and related fringe benefits and indirect costs.

Cost Transfers

The cost transfer claimed by the University does not comply with NIH or University policies. University policies and procedures state that "To be allowable, cost transfers must be timely, documented, and explained in detail..." Furthermore, University procedures state that cost transfers occurring more than 90 days after the original transaction must be documented in detail and signed by the PI. The cost transfer in question occurred almost 4 months after the retroactive effective date of January 1, 2001. The fully executed, signed personnel action form that the University provided only contains the phrase "change in funding." This is not a detailed explanation as required by the University's procedures. This phrase is not essentially different from the "due to error" reason that NIH considers unacceptable.

Our review of the PI's Application for Continuation grant package dated April 24, 2001, which includes the PI's progress report, does not support the University's claim that the research assistant devoted 100 percent of his time to the NIH grant during the 4 months in question. The application package contains the research assistant's biographical sketch, which lists the assistant's completed and on-going projects for the previous 3 years but contains no mention of his having worked on this grant. Furthermore, the PI's progress report does not indicate that the research assistant started on this research project on January 1, 2001, as the University maintains. As a result, we do not have sufficient documentation to accept this transfer of costs. The University should properly document and explain all cost transfers and refund NIH a total of \$21,303.

Reporting Accurate and Timely Financial Status Reports

The University's position is contrary to Federal regulations that require the final FSR to be accurate, current, and complete. Without an adjustment, the final FSR for the audited grant segment ended June 30, 2003, is overstated by a total of \$16,327, including related fringe benefits and indirect costs. In addition, this amount may be duplicated in the final FSR that will be submitted at the end of the next grant segment, which began on July 1, 2003. As a result, the University needs to improve its procedures for submitting accurate, current, and complete FSRs, correct its final FSR, and refund \$16,327 to NIH.

INTERNAL CONTROL WEAKNESSES

Grant Application Activity

OMB A-21, Section J.34, defines proposal costs as the costs of preparing bids or proposals on potential Federally and non-Federally sponsored agreements or projects, including the development of data necessary to support the institution's bids or proposals. According to this circular, "Proposal costs for both successful and unsuccessful bids and proposals normally should be treated as facilities and administrative costs and allocated to all activities of the institution during the current accounting period." Departmental administration expense includes salaries and fringe benefits attributable to the administrative work (including bid and proposal preparation) of faculty and other research personnel. However, administrative work in the academic departments is limited to 3.6 percent of the modified total direct costs for purposes of calculating the indirect rate.

Similarly, the University's procedures specify that researchers' efforts on new grant applications are an indirect expense category chargeable to the University's departmental administration account.

The University did not account for grant application activity as required by Federal regulations and University procedures. We found that the University charged this effort directly to the NIH grant. Discussions with an NIH official indicate that 3-6 months of effort is not unusual for grant applications totaling 50 pages. Our discussions with the PI confirmed that time spent on new or competing grant renewal applications could be extensive. However, the PI was unfamiliar with how these efforts are accounted for.

During the 4-year NIH grant project period, the PI and a research assistant submitted seven applications for new or competing grant renewals totaling \$7.9 million. However, none of the effort for developing these proposals was charged to the departmental administration account, as University procedures require. Our review of University data and NIH information on applications submitted found that:

- the PI submitted six new competing grant renewal applications totaling nearly \$6.5 million. Four of the six applications were extensive. The applications for these four competing grants totaled 118, 97, 59, and 55 pages. During the 4-year grant period, the PI's effort reports contained no charges to the departmental administration account for developing these proposals, as required under University procedures.
- the research assistant submitted a 43-page new grant application for \$1.4 million on October 13, 2000. All of this effort was charged to the NIH grant rather than to the departmental administration account.

The University did not have an adequate payroll distribution system to ensure that grant application activity was properly identified and charged to the departmental administration account.

We could not readily calculate the potential salary, fringe benefits, and other costs related to grant application activity that were improperly charged to the NIH grants, but the level of grant application activity for the two researchers was significant. Evidence that the PI and staff charged this effort directly to the NIH grant causes concern because:

- the effort given to developing new grant proposals detracts from the effort that the PI and staff can devote to the research for which the grant was funded. The level of effort to be committed by the PI is a main factor in the award of grants by NIH.
- the PI and his staff have an unfair competitive advantage over other researchers seeking NIH research funding who do not have Federal grants to subsidize their grant application efforts.
- the University is recovering grant application costs twice, both as a direct charge to NIH grants and as part of the 3.6 percent allowance that is recovered as part of the indirect rate.

Reporting Unobligated Balances

The NIH Grants Policy Statement, Part II, “Administrative Requirements, Changes in Project and Budget, Carryover of Unobligated Balances from One Budget Period to Another Within an Approved Project Period” states the following: “For awards using SNAP (see “Administrative Requirements-Monitoring-Reporting-Streamlined Non-Competing Award Process” for applicability), funds are automatically carried over to the subsequent budget period. However, the grantee will be required to indicate, as part of its grant progress report, whether its estimated unobligated balance (including prior-year carryover) is expected to be greater than 25 percent of the current year’s total approved budget. If so, the grantee must provide an explanation and indicate plans for expenditure of those funds.”

OMB A-21, Section C.4.a, states that a cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Furthermore, any costs allocable to a particular sponsored agreement may not be shifted to other sponsored agreements 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.

The University did not provide explanation or justification or obtain NIH approval for using over 25 percent of the funds from the grant segment year that ended in June 2003 in the subsequent grant segment starting in July 2003. Based on \$415,670 in funding for grant year 2003, the 25 percent threshold was \$103,918. However, our review of University records indicated that costs incurred late in the grant year, costs charged to the inappropriate grant year, and unspent funds totaled \$113,674. Specifically, the University exceeded the 25 percent threshold when it:

- incurred \$53,924 in costs (\$53,001 in direct costs and \$923 in indirect costs) late in grant segment 2003 for goods and services benefiting the 2004 grant segment that started in July 2003;
- charged \$16,327 in costs (\$8,440 in direct costs and \$7,887 in indirect costs) for salaries earned from July 2003 through October 2003 to the 2003 grant year, which ended June 30, 2003; and
- carried over \$43,423 in unspent funds from grant segment 2003 to grant segment 2004.

Thus, goods and services totaling \$70,251 (\$53,924 + \$16,327) that were claimed in the 2003 segment should have been identified and reported to NIH as part of total unobligated funds in excess of the 25 percent threshold. The \$16,327 in salaries, fringe benefits, and related indirect costs has been questioned in a prior section of this report on accurate and timely filing of the final FSR.

Because the University did not have adequate procedures in place for identifying and notifying NIH of unobligated balances exceeding 25 percent of the total award for the prior year, the University claimed significant grant costs that should have been identified to NIH as unobligated funds. These funds were used in a manner that was inconsistent with Federal requirements and guidelines.

Recommendations

We recommend that the University:

- improve its payroll distribution system to ensure that grant application activity is properly identified and accounted for,
- work with NIH to provide a reasonable adjustment to NIH grants for all improperly recorded grant application activity, and
- improve its procedures for identifying and notifying NIH of unobligated balances exceeding 25 percent of the total award for the prior year.

University's Comments

Grant Application Activity

The University maintains that it has an adequate payroll distribution system to ensure that grant application activity is properly identified and charged to departmental accounts.

The University stated that the grant application activity for the PI was charged to University-funded accounts, not federal grants. Specifically, it stated that during the period under review, the PI was paid 50 percent from University funds to support activities

such as teaching, departmental research, administrative functions, and proposal preparation. It claimed that at no time were NIH or any other Federal funds used to support the PI's proposal preparation efforts.

The University also stated that the research assistant provided the reviewers with documentation that he had prepared his original proposal years before the actual award and before beginning work on GM30626. Thus, the University maintained that it did not recover grant application costs twice because it did not charge the NIH grant for the PI's and research assistant's efforts to prepare proposals for other grants

Reporting Unobligated Balances

The University did not agree that it had claimed significant grant costs that should have been identified to NIH as unobligated funds. The University stated that it had reported an unobligated balance of \$43,423 on its FSR, which was accepted by NIH on March 25, 2004. According to the University, the unobligated balance represented 10.44 percent of the current year award. Thus, under SNAP, the University was not obligated to explain or seek approval for this unobligated balance. The University also maintained that the costs incurred after the grant expired were encumbered by the PI before the grant expiration date.

Office of Inspector General's Response

Grant Application Activity

The University's policies and procedures do not provide for charging the costs of proposal preparation to University-funded accounts. As a result, researchers would not know that they are to charge University funds for proposal preparation. University procedures only provide for charging proposal preparation efforts to the departmental administration account. Our review of personnel action forms and annual effort reports as certified by the department administrator for the 4-year grant project period disclosed no instances where the PI and the research assistant charged proposal effort to the departmental administration account.

The University's claim that only minor revisions were necessary to the research assistant's original grant proposal is not supported by the revised proposal. In the revised proposal, the research assistant states that since the original proposal, which he had prepared years before, he has "collected significant preliminary data" and made "significant changes throughout the entire proposal."

In summary, the University's payroll distribution system was not adequate to identify and account for changes to planned activity. Moreover, neither the PI nor his research assistant complied with University requirements to charge the departmental administration account for proposal activity. Accordingly, we maintain that the University should improve its payroll distribution system as specified in the recommendations and work with NIH to make an adjustment for grant application activity improperly charged to the NIH grant.

Reporting Unobligated Balances

The \$43,423 identified by the University as the unobligated balance is inaccurate and understated because it does not include two of our major findings in this area. First, \$16,327 in salaries and related fringe benefits and indirect costs was inappropriately charged to this grant segment because these costs were incurred in the next grant segment. Second, the University ordered three items of research equipment totaling \$53,924 days before the end of the grant segment on June 30, 2003. This equipment benefited the 2004 grant segment that started in July 2003. As a result, the actual unobligated balance at end of the project's last budget period totaled \$113,674, which exceeds 25 percent of the final year's budget.

In accordance with NIH policy, the University should have disclosed this significant balance to NIH and explained how it planned to spend the excess funds. Accordingly, we stand by our recommendation that the University needs to improve its procedures for identifying and notifying NIH of significant unobligated balances.

APPENDIXES

**UNIVERSITY OF MASSACHUSETTS MEDICAL SCHOOL
SUMMARY OF RESULTS BY COST CATEGORY
CIN-A-01-04-01505**

	Costs Claimed	Recommended Disallowances			Costs Accepted
		Nonlabor	Labor	Total	
Salaries&Wages	\$537,899		\$45,653	\$45,653	\$492,246
Fringe Benefits	149,665		10,957	10,957	138,708
Equipment	68,906				68,906
Supplies & Other Costs	358,114	124,155		124,155	233,959
Travel Costs	10,615				10,615
Other Costs	45,587				45,587
Total Direct Costs	\$1,125,199	\$124,155	\$56,610	\$180,765	\$944,434
Total F & A	591,477	69,527	31,701	101,228	490,249
Total Costs	\$1,716,676	\$193,682	\$88,311	\$281,993	\$1,434,683



July 19, 2005

Michael J Armstrong
Regional Inspector General for Audit Services
Office of Inspector General
JFK Bldg, Room 2425
Boston, MA 02203

RE: DHHS OIG Report Number A-01-04-01505 dated June 21, 2005

Dear Mr. Armstrong:

This is the University of Massachusetts Medical School (UMMS) response to the draft audit findings report (draft report) number A-01-04-01505 dated June 21, 2005.

NONLABOR COSTS

Recharge and Laboratory Supply Center Charges

We disagree with the OIG finding that UMMS lacked adequate supporting documentation due to missing copies of purchase requisitions.

All of the charges from recharge centers are supported by detailed invoices which specify the services and charges. These invoices clearly provide adequate documentation to support charges in accordance with federal regulations and University policy. The University does not require these recharge centers to retain requisitions specifying the goods or services ordered once the invoices have been received and the department receiving the charges has had the opportunity to review them. All of these invoices have been provided to the auditors.

Therefore, we feel strongly that we currently have adequate procedures in place that ensure that accounting records are supported by source documents retained as required by federal regulations.

UMMS does acknowledge that we were unable to provide certain copies of invoices from the UMass Memorial Lab Supermarket. This is a lab supply warehouse independently operated by the UMass Memorial Hospital. Accordingly, it is not an "internal laboratory supply cost center" as indicated in the "Conditions" section of the draft report. The total dollar value of these missing invoices amounted to \$1,527.

Accordingly, of the \$121,710 questioned by the auditors we agree \$2,383 (\$1,527 direct costs and \$855 indirect costs) is not adequately documented. However, it is our contention that this condition is entirely due to an isolated instance of misplaced documentation and in no way constitutes an admission of a weakness in internal controls or that the costs were not...."allocable to a particular cost objective...." per OMB Circular A-21, part C, section 4(a).

Cost Transfers

We disagree with the OIG finding that they were unable to determine whether the costs associated with the cost transfers were allocable, allowable, and reasonable charges to the grant because they were not timely and lacked detailed explanation.

Copies of cost transfer documents, signed by the principal investigator (PI) were provided as documentation in support of the charges being appropriately incurred on this grant. Our position is the PI's signature served as support that these expenses were allocable, allowable, and reasonable charges on this grant. Also, although University policy does state cost transfers should be processed within 90 days of the original transaction the policy goes on to require that all transfers to correct errors in original charges must be made, regardless of timing. Specifically, for the items in question, all were made to correct errors thus falling within University and NIH policy.

Accordingly it is our position that UMMS is compliant with NIH and UMMS requirements that require providing timely and detailed documentation therefore we believe no refund is required.

OVERSTATED LABOR COSTS

Effort Identified to Other Sponsored Research Projects

We disagree with the OIG finding that the University overstated salaries and wages and related fringe benefits of \$50,681 on this grant because changes to planned activities were not identified and accounted for.

The \$22,000 received from the private charity foundation was used to purchase materials and supplies for the NIH grant. The funds were not provided to support a separate project. Consequently, there was no effort associated with this private grant; all effort was on GM30626. An email statement to this effect is attached (Attachment 1).

With respect to the research assistant's effort during June 2001, the research assistant did not begin work on his new grant until July 2001. Therefore the charge to this grant for the month of June is correct. An email statement from the research assistant explaining the situation is attached (Attachment 2).

Based on this information we believe the charges of \$4,200 for the research assistant's effort for June are allowable and allocable charges to grant GM30626.

The University's payroll distribution system, including our annual effort certifications, requires responsible officials to review the charges to their grants at least annually and whenever a significant change in effort occurs. Through training sessions and instructions, departmental staff is instructed that the signing official must have suitable means of verification that the work was performed. These officials sign all annual effort certifications. In the future we will ensure that all certifications are dated as required by our instructions. With respect to independent evaluations of the system our A-133 auditors make annual reviews of the system as part of the A-133 audit.

Cost Transfers

We disagree with the OIG finding that salaries and fringes and applicable indirect costs charged of \$21,303 were overstated because we did not provide a detailed explanation for the transfer.

We have provided a copy of a fully executed, signed personnel action form, with appropriate nature of action justification specified, and subsequent clarification that for the period of 1/1/01 – 4/24/01 the research assistant devoted 100% of his effort to this research grant, which was also recorded in the PI's progress report. Further, clarification was provided to the OIG auditor that explained that the necessity for the transfer was due to an oversight on the PI's part to notify the department administrator when the change in effort occurred. This is in accordance with NIH policy that requires within 90 days of the discovery of an error that a correction be made.

The documentation and clarification provided supports the salary and fringe costs of \$21,303 as allowable and allocable charges to this grant. Accordingly, we do not believe a refund is required.

Reporting Accurate and Timely Financial Status Reports

The University recognizes that the final financial status report (FSR) was not submitted within 90 days of the project close date as required by federal policy. Within the past year, procedures have been put in place to monitor and ensure timely submission of FSRs. Monthly reports are used to identify grant expiration and report due dates. Beginning 90 days prior to the expiration date, the grants are more closely monitored for closeout activity and timely reporting. Finally, the ERA Commons is also used to monitor individual federal grant reporting deadlines and submissions.

We also recognize that \$8,440, effort for the period of 7/1/03 – 10/4/03, was charged to the incorrect grant segment for the research technician. A personnel action form was completed in September 2003 to move the technician to the new grant year but the required retroactive adjustment was inadvertently overlooked. However, 100% of the research technician's effort was devoted to grant GM30626, regardless of the segment, and is therefore an allowable cost.

INTERNAL CONTROL WEAKNESSES

Grant Application Activity

We disagree with the OIG finding that the University does not have an adequate payroll distribution system to ensure that grant application activity is properly identified and charged to departmental accounts.

Grant application activity for the PI was charged to University funded accounts not federal grants. During the period under review the PI was paid 50% from University funds. This was to support activities such as teaching, departmental research, administrative functions, and proposal preparation. At no time was NIH or any federal funds used to support proposal preparation effort for the PI. OMB Circular A-21 provides a standard allowance of 3.6 percent of modified total direct costs to cover the costs of administrative activity of faculty, including proposal preparation time. With this allowance there is no requirement to identify the specific administrative or proposal preparation effort of faculty. These activities are properly included in the overall effort funded by the University; they do not have to be broken out separately.

The research assistant provided supporting documentation to the reviewers that stated he had prepared his original proposal years before the actual award and prior to beginning work on GM30626. Only minor revisions were made to the proposal that resulted in the grant being awarded on 6/1/2001. As the research assistant stated, the work on the minor revisions was done on his own time as he was devoting 100% of his efforts to the research of grant GM30626.

Based on the above, the PI and research assistant did provide the levels of effort that were devoted to the research funded by this grant. The University is not recovering grant application costs twice as indicated in this draft report because we did not direct charge the grant for the effort in question.

Reporting Unobligated Balances

We disagree with the OIG finding that UMMS claimed significant grant costs that should have been identified to NIH as unobligated funds.

When the University submitted the FSR the unobligated balance was \$43,423 and was reported and accepted by NIH on 03/25/2004. The unobligated balance represented 10.44% of the current year award. Thus, under SNAP, the University was not obligated to provide explanation or to seek approval on this unobligated balance. The costs incurred after the expiration of the grant were expenses that were encumbered and approved by the PI prior to the grant expiration. The time period of 90 days after a grant expires (per NIH policy) allows for final invoices to be submitted for payment and to ensure inclusion in the FSR.

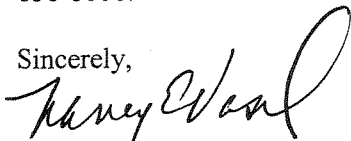
If a carryforward in excess of 25 percent had been the case, UMMS policy in compliance with NIH policy requires that the PI be notified of the excess carryforward. In these cases the PI is required to provide justification, in writing, to the NIH why the funds will not be spent prior to the expiration period and to explain how this money will be spent in future periods.

SUMMARY

The University has reviewed its internal controls and will continue to do so to ensure federal grant funds are managed appropriately. Our internal controls include the PI being responsible to ensure that charges to federal funds are reasonable, allocable and allowable. As always we will continue to monitor our internal controls and procedures for material weaknesses and will make changes as needed.

If I can be of further assistance or you have any additional questions please contact me at 508-856-8606.

Sincerely,



Nancy E. Vasil
Chief Financial Officer
University of Massachusetts Medical School

Cc: Stephen Lenhardt
Richard Stanton
Robert Harrison
Thomas Michael
Amy Miarecki

The attachments referenced in Appendix B are not included as part of this report as some of this information contains personal and confidential information which may not be releasable under 45 CFR Part 5 (FOIA).