

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ADMINISTRATIVE
AND CLERICAL COSTS AT DUKE
UNIVERSITY FOR THE PERIOD
OCTOBER 1, 2002, THROUGH
SEPTEMBER 30, 2004**



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Inspector General

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EXECUTIVE SUMMARY

BACKGROUND

Duke University (the University) is a private institution located in Durham, North Carolina. During the period October 1, 2002, through September 30, 2004, the University claimed reimbursement for \$594,104,781 of costs incurred on 2,566 grants, contracts, and other agreements with components of the Department of Health and Human Services (HHS).

In accepting grants, contracts, and other agreements awarded by HHS and other Federal agencies, the University agreed to comply with regulations governing the use of Federal funds and ensure that costs charged to those grants, contracts, and other agreements were allowable under the cost principles established in Office of Management and Budget (OMB) Circular A-21 (the Circular). These cost principles require that, to be allowable, costs must be reasonable, be allocable, conform to any exclusions or limitations set forth in the cost principles or sponsored agreements, and be given consistent treatment through the application of generally accepted accounting principles.

One limitation is set forth in section F.6.b of the Circular. This section adds specific guidance regarding the treatment of charges for administrative and clerical expenses, the subject of this audit, incurred within various departments of a college or university, including the following: "The salaries of administrative and clerical staff should normally be treated as F&A [Facilities and Administrative] costs" (section F.6.b.2) and "Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs" (section F.6.b.3).

The only specific exception to this guidance is provided for "major projects," where direct charging of administrative and clerical expenses may be appropriate. "Major projects" are defined in section F.6.b.2 of the Circular as projects that require an "extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments."

OBJECTIVE

Our objective was to determine whether the University had claimed reimbursement for administrative and clerical expenses as direct costs to grants, contracts, and other agreements with HHS components in accordance with applicable Federal regulations.

SUMMARY OF FINDINGS

Based on our two samples, consisting of 114 charges for administrative and clerical salaries and 120 charges for other administrative costs, we estimate that the University claimed approximately \$1.7 million in unallowable charges as direct costs to grants, contracts, and other agreements with HHS components during fiscal years 2003 and 2004.

These unallowable claims occurred because the University had not established adequate controls to ensure consistent compliance with the Federal requirements applicable to charges for

administrative and clerical costs. Although its “General Accounting Procedures” (GAP) often incorporates text from the Circular, the University had largely left it to the discretion of its individual colleges, departments, and principal investigators to interpret the GAP correctly and to comply with the Federal requirements.

The Office of Sponsored Research did not provide adequate scrutiny for charges proposed by colleges, departments, and principal investigators to ensure that those charges fully complied with Federal regulations. The University’s policies essentially allowed direct charges to any project needing any administrative or clerical support.

RECOMMENDATIONS

We recommend that the University:

- refund \$1,661,011 to the Federal Government and
- revise its policies as needed to comply with the requirements of OMB Circular A-21 and ensure consistent treatment of administrative and clerical costs.

UNIVERSITY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

The University partially agreed with our first recommendation and disagreed with our second recommendation. Although the University agreed that some of the questioned costs were not supported with documentation, it stated that most of the questioned costs were allowable and that we had not appropriately applied the allowability standards. Further, the University did not believe that it was appropriate to estimate unallowable costs using a statistical sample. The University stated that its policies complied with Federal requirements.

Under separate cover from its response, the University provided additional documentation for 55 unallowable items. Based on a review of this documentation, we concluded that the University had adequately supported 24 of the 55 items, and, accordingly, we revised the total amount recommended for recovery from \$2.4 million to \$1.7 million. The University’s assertions that we had misinterpreted applicable criteria and should not have extrapolated our findings based on statistical sampling techniques, however, did not support the University’s assertion that any further charges were allowable.

While the University’s policies and procedures were generally effective, some University employees did not always comply with them. Accordingly, the University agreed to continue the process of revising its policies, procedures, training, monitoring, and other internal controls as needed to ensure that the University remains fully compliant with applicable Federal criteria.

The full text of the University’s comments is included as Appendix F of this report.