UNIVERSITY OF CONNECTICUT

2013-500 Allowable Costs/Cost Principles – Time and Effort

Federal Award Agency: Various
Award Year: State Fiscal Year Ended June 30, 2013
Research and Development Programs: Various

Criteria: In accordance with the Office of Management and Budget (OMB) Circular A-21, the distribution of salaries and wages must be supported by after-the-fact activity reports signed by responsible persons who have used suitable means to verify that the work was performed. The majority of the charges to federal research and development programs are for personal service costs. Accordingly, the accuracy and integrity of the time and effort reporting system is crucial.

Condition: Under the university’s current time and effort reporting system, researcher time and effort reports are prefilled with estimated percentages of effort devoted to various projects by each researcher on a semester basis. These percentages are estimated by dividing the amount charged to each account by the total charged to all accounts on a biannual (July through December and January through June) basis.

Many researchers are nine month employees who work September through May, but are compensated on a 12 month basis. Accordingly, the charges recorded for a biannual period do not completely correspond with these employees’ actual personal service costs for the semester, as accounts are charged when compensation is paid, not earned.

For example, charges for amounts paid to a nine-month employee in July will be aggregated into the succeeding fall semester. However, these costs actually relate to work performed over the preceding fall and spring semesters.

The prefilled percentages reflect the apportionment of salaries paid during the period, not salaries paid for work performed during the period. Overlapping payments for summer semester work create an additional complication.

Effect: These inconsistencies make it difficult to readily correlate the percentages reflected on the time and effort reports with the work actually performed.

Cause: The university pays nine month employees on a 12 month basis as a convenience for the employees. The implications of this practice with respect to the time and effort system do not appear to have been given adequate consideration.

Recommendation: The University of Connecticut should charge restricted accounts for the full cost of personal services when those costs are incurred.

Agency Response: “The university agrees with this finding.”
2013-501  Allowable Costs/Cost Principles – National Institutes of Health Salary Cap

Federal Award Agency: United States Department of Health and Human Services
Award Year: State Fiscal Year Ended June 30, 2013
Research and Development Programs:
Environmental Health (CFDA # 93.113)
Account #5224710 – “Electrocatalytic Studies of Toxic Pollutant Activation” – 5R01ES003154-29 issued by the National Institute of Environmental Health Sciences, project period March 1, 1983 through November 30, 2013

Discovery and Applied Research for Technological Innovations to Improve Human Health (CFDA # 93.286)
Account #5613660 – “Protein Biosensor Arrays Based on Nanomaterials” – 9R01EB014586-06A1 issued by the National Institute of Biomedical Imaging and Bioengineering, project period September 15, 2011 through August 31, 2015

Lung Diseases Research (CFDA # 93.838)
Account #5258160 – Subaward M11A11069 (A08211) from Yale University under “Counter-Irritation by Menthol: Molecular Targets and Role in Airway Disease” – 5R01HL105635-02 issued by the National Heart, Lung and Blood Institute, project period January 1, 2011 through December 31, 2014

Child Health and Human Development Extramural Research (CFDA # 93.865)
Account #5614730 – “Estimating the Causal Effects of Social Networks on Health Behaviors” – 1R21HD066230-01A1 issued by the Eunice Kennedy Shriver National Institute of Child Health and Human Development, project period September 27, 2011 through August 31, 2013

Criteria: 

The legislatively mandated National Institutes of Health salary cap, which is set through appropriation legislation, limits the direct salary that a researcher may receive under a National Institutes of Health award. The cap is tied to the federal Executive Schedule of Pay. The cap does not limit researcher salaries. It limits the amount that can be charged to National Institutes of Health awards. In instances in which researcher pay rates exceed the cap, awards cannot be charged more than would be allowable if the researcher pay rates were at the cap.

The salary cap was set at $179,700 annually for a full-time employee for awards issued during the period from December 23, 2011 through January 11, 2014. Higher levels were permissible for awards issued prior to and following this period. As the salary cap limits pay rates, the annual amount must be reduced proportionately for percentage of employment, the fraction of a year the time period represents and the percentage of effort devoted to the award during the time period for which the salary allocation is calculated.

Condition:

We identified 28 instances in which the cap was potentially applicable. Each instance included all compensation charged to one or more National Institutes of Health awards for one semester for one individual whose pay rate exceeded $179,700. We tested ten of these instances and found that the researchers had
been charged at rates that exceeded the applicable salary cap in three of the ten. Excess amounts charged (salary only, not including associated fringe benefits and facilities and administrative costs) totaled $6,476, $4,118, $1,986 and $340 for awards 5R01ES003154-29, 9R01EB014586-06A1, M11A11069 (A08211) and 1R21HD066230-01A1, respectively.

**Effect:**
Unallowable costs were charged to National Institutes of Health awards.

**Cause:**
The university has not established a standard process for addressing this compliance requirement. As a result, though the annual salary caps were appropriately reduced for the fractions of a year represented by the periods during which the work was performed, the necessity to further reduce the caps for the percentages of effort devoted to the awards in question during those periods was not recognized in all cases.

**Recommendation:**
The University of Connecticut should identify all instances in which individuals whose rate of pay exceeds the salary cap are charged in whole or part to National Institutes of Health awards. Amounts in excess of the cap should be charged to specific accounts clearly designated for that purpose.

**Agency Response:**
“The university agrees with this finding.”

### 2013-502 Cash Management

**Federal Award Agency:** United States Department of Defense

**Award Year:** State Fiscal Year Ended June 30, 2013

**Research and Development Programs:**

**Military Medical Research and Development (CFDA #12.420)**

Account #5253310 – “Tracking the Health of Soldiers with Advanced Implantable Nano-Sensors” – W81XWH-09-1-0711 issued by the U.S. Army Medical Research Acquisition Act, project period September 15, 2009 through April 14, 2013

Account #5615520 – “Optimizing and Validating a Brief Assessment for Identifying Children of Service Members at Risk for Psychological Health Problems Following Parent” – W81XWH-12-2-0036 issued by the U.S. Army Medical Research Acquisition Activity, project period June 15, 2012 through June 14, 2015

**Criteria:**
In accordance with the Office of Management and Budget (OMB) Circular A-110, cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.
Condition: Average daily cash balances in excess of $100,000 were maintained for two awards that should have been funded on a cost reimbursement basis. These cash balances were significantly in excess of immediate cash needs.

An average daily cash balance of $364,862 was maintained for award W81XWH-09-1-0711; the average amount expended each day was $1,043. An average daily cash balance of $110,319 was maintained for award W81XWH-12-2-0036; the average amount expended each day was $73.73.

Effect: Excess cash balances were maintained.

Cause: With respect to awards W81XWH-09-1-0711 and W81XWH-12-2-0036, the grantor agencies deliberately transferred funds substantially in excess of the university’s immediate cash needs. The grantor agencies bear the responsibility for taking appropriate remedial action.

Conclusion: This condition was deliberately engendered by the grantor agencies; they bear the responsibility for taking appropriate remedial action.

Agency Response: “Not applicable.”

2013-503 Allowable Costs/Cost Principles – Unallowable Costs

ARRA - Trans-NIH Recovery Act Research Support (CFDA # 93.701) Non Major Program
Federal Award Agency: United States Department of Health and Human Services, National Institutes of Health, National Institute of Mental Health
Award Year: State Fiscal Year Ended June 30, 2013
Federal Award Number: 1RC4MH091939-01
Account #5256160 – “Connecticut Correctional Health Services Research Partnership” – 1RC4MH091939-01 issued by the National Institute of Mental Health, project period August 1, 2010 through July 31, 2013

Criteria: In accordance with the Office of Management and Budget (OMB) Circular A-21, costs charged to a federal award must be for work actually performed for the benefit of the award. The university’s key control with respect to claims for reimbursement submitted by subrecipients in connection with subawards issued by the university is the evaluation of the claims by the principal investigators for the awards. The principal investigators are ultimately responsible for the awards and are in the best position to determine if work has actually been performed.

Condition: We noted that the principal investigator for award 1RC4MH091939-014 disallowed $53,393 in claims for reimbursement submitted by the University of Connecticut Health Center as subawardee of the university. The principal investigator rejected the claims in the belief that the work was not done.
It appears to us that the principal investigator was then pressured by colleagues to approve the claims. This interfered with the principal investigator’s ability to freely exercise judgment in this matter. The claims were subsequently paid.

**Effect:**
Unallowable costs were charged to the award.

**Cause:**
There was a breakdown in internal control.

**Recommendation:**
The University of Connecticut should reimburse the award for the unallowable costs charged. The principal investigator’s ability to freely exercise judgment with respect to the approval of claims for reimbursement submitted by subrecipients should not be abridged.

**Agency Response:**
“The university cannot agree at this time because we believe this finding is premature. A thorough evaluation of this matter has not been performed.

The university will conduct an independent investigation of the facts and circumstances surrounding this finding. The university will take appropriate action based on the outcome of this investigation. If it is determined that there are unallowable costs charged to this award, the university will reimburse the award for the full amount of questioned costs.”

### 2013-504 Allowable Costs/Cost Principles – Applicable Credits

**Federal Award Agency:** Various  
**Award Year:** State Fiscal Year Ended June 30, 2013  
**Research and Development Programs:** Various

**Criteria:**
In accordance with the Office of Management and Budget (OMB) Circular A-21, to be allowable under federal awards, costs must be net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rebates, trade-ins, adjustments for checks not cashed, and scrap sales.

**Condition:**
The university participates in the state’s purchasing card program. The state receives rebates on credit card purchases made under this program, but does not credit them to the cost centers that the purchases were charged to.

During the 2013 fiscal year, charges to accounts maintained by the university for federal research and development programs aggregated $2,500,776. The state’s rebate rate under the purchasing card program was 1.32 percent for the 2012 calendar year. Using 1.32 percent as a reasonable estimate of the rebate rate for the 2013 fiscal year, $33,010 in applicable credits should have been allocated to federal research and development programs administered by the university.

**Effect:**
Unallowable costs in the amount of $33,010 were charged to federal research and development programs administered by the university.
Cause: Amounts rebated were retained in central state accounts; they were not made available to the university for allocation to the cost centers that the purchases were charged to.

Recommendation: The State Comptroller should transfer purchasing card program rebates allocable to the university’s federal accounts to the university so that they can be appropriately credited to the accounts.

Agency Response: Office of Policy and Management and Office of the State Comptroller

“We do not agree with this finding. All costs incurred to administer the P-Card Program are paid from the General Fund. These administrative costs include but are not limited to field compliance audits by the Office of the State Comptroller staff, training of agency staff, enhancement of P-Card functionality and transparency through Core-CT applications, responding to Freedom of Information requests, negotiating contract provisions with the bank, maintaining the program with the bank and reviewing best credit purchasing practices in other states. The purchasing card program rebates are deposited as General Fund revenue rather than as specific refunds of expenditures back to the spending source. The rebates are deposited to the General Fund to recover the purchasing card program’s administrative costs.

In accordance with Section 4-29b of the State Statutes, Use of indirect cost recoveries, state agencies that receive indirect cost recoveries from federal grants or other sources are directed to credit those recoveries to the General Fund, unless such deposits are waived by the Secretary of OPM. The statute also notes “for the purposes of this section ‘state agency’ does not include any constituent unit of state system of higher education or any state institution of higher education.”

The General Fund costs of administering the P-Card program are included in the SWCAP and are part of the allocation distributed to agencies through the plan. However, the higher education units do not reimburse the General Fund for SWCAP-related costs through their indirect cost recoveries.

While not expressly addressed under CGS 4-29b, the University’s current practice of crediting the General Fund for P-card rebates is consistent with the approach applied to most other state agencies and the approach utilized for indirect cost and SWCAP recoveries.

It is the position of the Office of Policy and Management that “rebates” for credit card purchases represent administrative cost recoveries rather than offsets of or credits to the funding source for such purchases. State agencies, including the University of Connecticut, participating in the purchasing card program enjoy substantial benefits of that program. However, there are substantial General Fund costs incurred in establishing and maintaining that program. Purchasing card
program rebates are deposited as General Fund revenue rather than as refunds of expenditures credited to the funding source of the expenditure, and help the General Fund to recover the purchasing card program’s administrative costs. The treatment of these rebates by the University is consistent with the policy and practice employed by other state agencies.”

**Auditors’ Concluding Comments:**

Though retaining the rebates in the General Fund is permitted by state statute, the allowability of charges to federal research and development programs is defined in the Code of Federal Regulations. Rebates on credit card purchases can be readily allocated to specific expenditures. They should be credited against the cost centers of the sponsored projects that incurred the initial charges, to appropriately reduce the direct costs of goods and services charged to their actual prices, net of applicable credits.

Additionally, SWCAP related costs are not charged to university federal research and development programs, as the university’s own administrative costs exceed the 26 percent cap on administrative costs. Applying the rebates to reduce central state administrative costs does not reduce the amount of facilities and administrative costs recovered from the programs that incurred the initial charges.