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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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MANPOWER AND WELFARE
DIVISION

JAN 0 6 1976

The Honorable John D. Young
Assistant Secretary, Comptroller
1 Department of Health, Education, and Welfare *22*

Dear Mr. Young:

We have surveyed indirect cost reimbursements to Trustees of Health *P. 4668*
and Hospitals of the City of Boston, Inc. (Trustees)--an affiliate of *MMH*
2/ Boston City Hospital (BCH)--under grants awarded to Trustees and medical
schools affiliated with BCH. As part of our survey, we also reviewed
indirect costs related to a Drug Abuse Services Project grant awarded to
Trustees by HEW's National Institute of Mental Health (NIMH). *D. 341*

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4 P. 818 Our survey shows there is a need for HEW to resolve certain
questions concerning Trustees' rights to receive and retain funds under
existing HEW guidelines. Trustees received and retained indirect cost
reimbursements on behalf of BCH (1) from HEW contrary to HEW guidelines
which required that such reimbursements be paid to BCH and (2) from medi-
cal schools under HEW grants for overhead generated by school personnel
working at BCH. Although HEW guidelines do not specifically preclude
Trustees from receiving and retaining reimbursements from the medical
schools, a question of appropriateness arises because the circumstances
closely parallel those mentioned in (1) above.

Our survey also showed that Trustees may have been allowed excess
indirect costs for fiscal years 1973 through 1975 on the Drug Abuse
Services Project grant because it incorrectly applied an indirect cost
rate. Further, Trustees accounting and internal control system may not
be adequate to protect the interests of the Federal Government.

BACKGROUND

Trustees is a non-profit corporation established in 1965 pursuant
to Chapter 174 of the Acts of 1880 of the Commonwealth of Massachusetts.
It is authorized to receive and administer contracts and grants from
governmental agencies and others for research, training and service and
to administer various trust fund activities relating to the health needs
of the City's citizens. Trustees' operations are administered by a Board
of Trustees which also administers the affairs of the Department of
Health and Hospitals of the City of Boston, of which BCH is a component.

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A Trustees official advised us in December 1975 that Trustees employed about 850 persons, all but about 30 of whom were engaged directly in research and service programs. Projects awarded to Trustees are carried out principally at the facilities of BCH.

Trustees charged (1) HEW for indirect costs of the projects it performed at BCH and (2) medical schools affiliated with BCH for indirect costs of the projects the schools performed at BCH. Indirect cost reimbursements were placed in Trustees general fund and disbursed for various purposes including those benefiting BCH. Reimbursements for indirect costs incurred by BCH were treated as revenue by Trustees and not paid to BCH.

QUESTIONABLE INDIRECT COST
REIMBURSEMENTS TO TRUSTEES

HEW reimbursed Trustees for indirect costs--amounts which we could not readily determine--on HEW grants contrary to HEW's Grants Administration Manual. The Manual provides that indirect costs incurred by affiliated organizations (such as BCH) in support of grantee institutions (such as Trustees) are allowable for reimbursement only if (1) the grantee institution is charged for and pays for the services provided and related costs incurred by the affiliated institution, or (2) the grantee and the affiliated institution submit joint applications and the awards are made jointly to them.

We found that neither of the above conditions were met. BCH advised Trustees of its indirect costs in memorandum form and did not specifically charge Trustees for them. Trustees, in turn, did not establish a liability on its books for such costs nor pay them. Trustees submitted its own applications and the grants were awarded to Trustees alone.

HEW also paid indirect costs on HEW grants to various medical schools for overhead generated by school personnel working at BCH. The schools paid the following sums to Trustees as indirect cost reimbursements.

<u>Fiscal Year</u>	<u>Amount</u>
1971	\$489,000
1972	794,000
1973	not readily obtainable
1974 (9 mos.)	369,461

An HEW regional financial management representative told us he believed most of the reimbursements were for HEW grants. These payments were treated by Trustees as revenue and deposited in its general fund. Although HEW guidelines do not specifically preclude Trustees from receiving and retaining these reimbursements, a question of appropriateness arises because the circumstances closely parallel those involved in the reimbursements by HEW to Trustees for BCH costs.

Trustees General Manager said indirect costs were not reimbursed to BCH immediately because its indirect costs were funded in the City's annual budget. He said indirect cost funds from the grants were held by Trustees until the Department of Health and Hospitals of the City of Boston directed Trustees to spend them for various purposes, some of which benefited BCH.

Trustees' officials told us at the time of our survey that the accounting system could not readily provide us with financial data on indirect costs collected on behalf of BCH and expenditures made by Trustees on behalf of BCH before fiscal year 1975. A system was being installed, however, that the officials said would be able to accumulate such financial data for current projects. Further, because an independent audit of Trustees' financial statements was in progress, the officials said they could not compile reimbursement data for us. Consequently, we do not know (1) the amount of indirect costs collected on behalf of BCH and (2) the amount paid for the benefit of BCH.

HEW regional representatives advised us that, after our bringing this matter to their attention, they held several meetings with Trustees' officials to attempt to resolve the problems related to indirect costs including having Trustees provide documentation on the expenses it paid on behalf of BCH. Trustees provided some of this documentation and indicated an inordinate amount of effort would be required to assemble more support data. On August 6, 1975, an HEW regional representative advised Trustees that the information was not satisfactory and requested additional documentation. There has been subsequent correspondence between HEW and Trustees attempting to reach a mutually satisfactory solution. HEW has requested that Trustees resolve the matter by January 10, 1976.

INCORRECT APPLICATION OF INDIRECT COST RATE

Trustees may have been allowed excess indirect costs for fiscal years 1973 through 1975 on its Drug Abuse Services Project grant. Trustees claimed costs based on a provisional indirect cost rate of 45.63 percent for Trustees administered research at BCH (the on-site rate) when most of the effort under this grant was performed at locations other than BCH.

4 In June 1972, Trustees received the first grant covering the period July 1, 1972, through June 30, 1973, under an 8-year Drug Abuse Services Project. The grant, now administered by the National Institute on Drug Abuse (NIDA), was to expand the drug treatment program in the City of Boston by adding three facilities to the program--drug clinics at Brighton and Mattapan, Massachusetts, and a halfway house. In the second and third year of the project three additional off-site locations were added to the project. 818

The indirect costs claimed for fiscal year 1973--\$114,638--were based on the on-site indirect cost rate--45.63 percent--applied to the direct salaries and wages of grant personnel used as the base for computing indirect costs--\$251,234. We determined that about \$172,000, or 68 percent, of the direct salaries and wages pertained to personnel located at the Brighton and Mattapan clinics. The halfway house was not operational in fiscal year 1973.

In fiscal year 1974 Trustees claimed \$78,803 in indirect costs. At the conclusion of our survey, Trustees had not yet submitted its expenditure report to NIDA for fiscal year 1975; however, in its budget for that year, Trustees estimated its indirect costs would be \$162,760. We did not determine the salaries and wages of grant personnel at off-site locations for these years.

An HEW regional financial management representative advised us the allowable indirect costs for the off-site locations would be considerably less than those claimed by Trustees. He said the rate for some of the off-site locations should be 5 or 6 percent instead of 45.63 percent. He said the amount of the allowable indirect costs would be determined when the rates are finalized for these years.

The regional representative was not aware Trustees had grants which were performed partially off-site until we brought the matter to his attention. He advised that (1) the grantee (Trustees) should have either requested a composite rate reflecting the on-site and off-site activities or a special off-site rate, and (2) the grantor (NIMH and NIDA) should have notified his office that the project was being conducted at locations other than BCH so actions could have been initiated to have Trustees submit a revised indirect cost proposal reflecting these off-site locations. He said neither Trustees nor NIMH nor NIDA notified his office of these circumstances.

Subsequently, the Region I Director of the Cost Review and Assistance Division notified NIDA officials in July 1975 that a significant portion of the grant was being performed at off-site locations and asked them to take corrective action. NIDA, in turn, notified Trustees that the on-site rate claimed was not proper and that Trustees should obtain a corrected indirect cost rate reflecting the off-site activities from the HEW Assistant Regional Director for Financial Management. As of November 1975, Trustees had not obtained a corrected rate.

QUESTIONABLE ADEQUACY OF
TRUSTEES ACCOUNTING AND
INTERNAL CONTROL SYSTEM

On March 30, 1973, Trustees' independent auditors reported on their examination of Trustees' financial statements for the 2-year period July 1, 1970, through June 30, 1972. They stated that:

- The condition of the accounting records was such that they could not successfully execute certain auditing tests and procedures necessary to comply with generally accepted auditing standards, and
- The system of internal accounting controls and the accounting records of the general fund were inadequate for providing reliable financial information.

Trustees' independent auditors had not completed their examination of Trustees' financial statements for the period July 1, 1972, through June 30, 1974, at the close of our survey. A Trustees official advised us in December 1975 that the report had not yet been released by the auditors and he did not know when it would be released.

On February 5, 1975, a report by another independent audit firm on expenditure of HEW funds by Trustees on a Family Planning Project for the year ended August 31, 1974, stated that Trustees ". . . did not maintain an accounting system that adequately summarized expenditures applicable to the HEW program".

During our survey, the condition of Trustees' accounting records was such that we could not readily determine the value of grants awarded annually or the amount of indirect expense reimbursements received for most grants or in total. With respect to the need to improve internal control of funds, the Suffolk County, Massachusetts, District Attorney recently obtained indictments charging a former Trustees payroll supervisor with larceny of \$62,497 by uttering 188 payroll checks during the period January 10, 1974, to March 1, 1975.

Trustees' officials stated that a new accounting and internal control system being installed will provide accurate information. Trustees has been operating under the new system since March 1975.

RECOMMENDATIONS

We recommend that you, together with the Assistant Secretary for Health and the Regional Director, Region I:

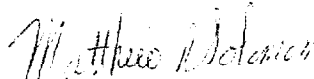
- Determine the amount of indirect cost reimbursements which were paid to Trustees contrary to HEW's Grants Administration Manual and whether any monies might be due either BCH or the Federal Government.
- Ensure Trustees conforms to HEW's Grants Administration Manual in the future by either (1) being charged for and paying for indirect costs generated by services provided by BCH or (2) submitting a joint grant application with BCH and being awarded a grant jointly.

- Determine the appropriateness of indirect cost reimbursements which were paid by the medical schools to Trustees instead of BCH, the provider of the services. If the circumstances are considered inappropriate, guidelines should be modified accordingly.
- Determine the proper indirect cost rate that should have been used on the Drug Abuse Services Project and recover any excess indirect costs allowed Trustees for fiscal years 1973 through 1975. If Trustees has other grants where grant effort is performed off-site yet Trustees is claiming the on-site rate, the proper rate should be determined and any excess indirect costs allowed recovered.
- Determine whether Trustees new accounting and internal control systems are adequate to protect the interests of the Federal Government and whether costs charged to grants are reasonable, allocable and necessary to achieve grant objectives.

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We would appreciate your comments and advice on actions taken or planned on these matters. Copies of this report are also being furnished to the Assistant Secretary for Health and the Regional Director, Region I.

Sincerely yours,



Robert E. Iffert, Jr.
Assistant Director