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DUKE, FEDERAL GOVERNMENT SETTLE INDIRECT COST AUDIT

«»«IP5»DURHAM, NC -- Duke University officials announced today (Thursday, Oct. 24) that the university has paid the federal government \$16,366 following a U.S. Department of Health and Human Services audit of selected indirect cost pools charged against \$61 million in federally sponsored research at Duke in 1990-91.

The university also agreed "with reluctance" to a federal request to make the 1990-91 adjustment retroactive to include the equivalent of five annual payments of \$16,366 for the period 1987-88 through 1991-92 as a final settlement with the government.

"We regret that coding errors in our accounting system led to these mistaken charges, but are grateful that federal auditors have confirmed the position we stated last spring -- that the unallowable items in the general administrative cost component of our indirect cost rate allocated to federally sponsored research in 1990-91 would total approximately \$16,000," said John F. Burness, senior vice president for public affairs.

In May it was reported at a hearing of the U.S. House Subcommittee on General Oversight and Investigation that Duke had included \$900,000 in overbillings to the government. At the time, Duke disputed that figure, noting that some \$800,000 of the items reported to the subcommittee had been identified and eliminated in 1990 when Duke and DHHS had negotiated the university's indirect cost rate for 1990-91 and 1991-92.

"Although we were provided with no documentation to support a conclusion that Duke owed the government any money for prior years and do not believe there is any basis in the record for a retroactive application of the audit findings for 1990-91, the university believes that prolonged debate and additional time and expense to Duke and the government to review prior years would serve neither the government's nor the university's interests," Burness said. "In order to close the books and put the issue to rest, we have agreed with considerable reluctance to a five-year adjustment. We anticipate that there will be no change in our current indirect cost rate as a result of this audit," Burness said.

Indirect costs are university administrative and infrastructure costs such as utilities, building space, maintenance, library services and resources that benefit and support research generally but are not directly attributable to a specific research project. For each sponsored research project, the sponsoring agency pays the direct costs of the research and then an additional amount to cover the expenses incurred by the institution in administering the project.

Indirect cost recovery rates are negotiated for each fiscal year between research universities and the government agencies assigned to oversee each university's indirect cost accounting. Under an agreement negotiated between Duke and DHHS in 1990, Duke's indirect cost rate is 52 percent -- meaning that for each federal dollar the university receives, an additional 52 cents is added to help pay for indirect costs.

According to Bruce C. McLamb, controller in the university's Budget, Cost and Reimbursement Accounting Department, the university was given a clean bill on other areas audited. The government's "review of depreciation did not note any space or equipment at Duke that was idle or not related to research, nor did the auditors identify equipment items that might be perceived as extravagant or otherwise inappropriate even though they might not be specifically unallowable under the government's guidelines," McLamb said.

Burness said the audit of selected indirect cost pools, conducted this spring by the DHHS Inspector General's Office, confirmed Duke's view that accounting errors and miscodings had caused \$20,718 to be included erroneously in pools partly reimbursed by the federal government. The \$16,366 actually paid to Duke represents 79 percent of that \$20,718, reflecting the fact that 79 percent or \$61 million of Duke's \$78 million in sponsored research in 1990-91 was from the federal government. The incorrectly coded charges included support for the university art museum, the annual faculty dinner and a dinner to honor scholarship finalists, and some alumni and fund-raising activities, including travel, wine, flowers and receptions. Such activities cannot be included as indirect costs of federally sponsored research according to regulations published by the Office of Management and Budget.

In May Duke announced it had taken steps to prevent future incorrect billings, including establishment of new expenditure classifications, closer review of coding of travel vouchers and imprest cash forms, new training sessions for employees who prepare travel vouchers and imprest cash forms, and the elimination of the practice of paying department or employee expenses through accounts of university officers.

"We realize that universities must be accountable to the public and the government in our management of federal research," Burness said. "Although we do not believe the audit's findings should be made retroactive, we think it is important to have the audit completed so Duke can focus its attention on working with our sister institutions and the federal government to develop appropriate policies to improve the nation's research infrastructure and competitiveness."

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