

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**NORTHWESTERN UNIVERSITY DID NOT  
ALWAYS COMPLY WITH FEDERAL  
REQUIREMENTS TO PERFORM RISK  
ASSESSMENTS OF SUBRECIPIENTS, BUT  
CLAIMED ALLOWABLE COSTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



Gloria L. Jarmon  
Deputy Inspector General  
for Audit Services

November 2018  
A-05-17-00016

# *Office of Inspector General*

<https://oig.hhs.gov>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

## *Office of Evaluation and Inspections*

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

## *Office of Investigations*

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

---

**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <https://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG website.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## Report in Brief

Date: November 2018

Report No. A-05-17-00016



### Why OIG Did This Review

HHS codified the Uniform Guidance at 45 CFR part 75, which governs awards and award increments made on or after December 26, 2014. The new rule requires prime Federal award recipients to perform pre-award subrecipient risk assessments and monitor the programmatic activities of subrecipients throughout the life of each subaward.

Our objectives were to determine whether Northwestern (1) awarded subawards and monitored subaward recipients in compliance with Federal regulations and (2) complied with Federal regulations and NIH grant policies relating to expenditures for subawards.

### How OIG Did This Review

Northwestern was the prime recipient of 229 NIH grants, totaling more than \$467 million, that contained subawards to other entities. Northwestern was the subrecipient of 304 grants, totaling more than \$92 million, which other NIH prime recipients awarded to Northwestern. The grants were for the period December 26, 2014, through December 31, 2016.

We reviewed 30 grants for which Northwestern was the prime recipient and 30 grants for which Northwestern was the subrecipient. We reviewed the awards, monitoring of the subawards, and costs claimed.

## Northwestern University Did Not Always Comply With Federal Requirements To Perform Risk Assessments of Subrecipients, but Claimed Allowable Costs

### What OIG Found

Although Northwestern claimed allowable expenditures on subawards it awarded and received, it did not always perform required subaward risk assessments. For 24 of the 30 grants to subrecipients, Northwestern did not perform a risk assessment on 1 or more of the subrecipients. The 30 grants had subawards to 61 subrecipients, 48 of which should have had a risk assessment, but did not. The remaining 13 subrecipients either had a risk assessment or were not required to have a risk assessment. As a result, Federal funds of approximately \$9.7 million were awarded to subrecipients without performing the required risk assessment.

### What OIG Recommends and Northwestern Comments

We recommend that Northwestern (1) establish policies to perform subrecipient risk assessments for affiliates, Federal Demonstration Partnership members, and non-Federal subrecipients subject to 45 CFR part 75, and (2) ensure that subrecipient risk assessments are performed on all non-Federal subrecipients subject to 45 CFR part 75.

In written comments on our draft report, Northwestern concurred with our recommendations and provided details about corrective actions it has taken such as establishing policy that addresses the roles and responsibilities associated with managing subawards, including performing risk assessments on all subrecipients.

## TABLE OF CONTENTS

INTRODUCTION.....	1
Why We Did This Review.....	1
Objectives.....	1
Background.....	1
National Institutes of Health.....	1
Northwestern University.....	1
Northwestern Affiliates.....	2
Federal Demonstration Partnership.....	2
Federal Regulations.....	2
Risk Assessment of Subrecipients by Northwestern.....	3
How We Conducted This Review.....	4
FINDINGS.....	5
Northwestern Did Not Always Perform Subrecipient Risk Assessments.....	5
Subaward Expenditures Were Allowable.....	7
RECOMMENDATIONS.....	7
NORTHWESTERN COMMENTS.....	7
APPENDICES	
A: Audit Scope and Methodology.....	8
B: Northwestern Comments.....	10

## INTRODUCTION

### WHY WE DID THIS REVIEW

The Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards<sup>1</sup> (commonly called Uniform Guidance) was intended to ease the administrative burden and cost of compliance for entities that receive Federal awards. The U.S. Department of Health and Human Services (HHS) codified the Uniform Guidance at 45 CFR part 75, which governs awards and award increments made on or after December 26, 2014. The new rule requires a prime Federal award recipient to perform pre-award subrecipient risk assessments and to monitor the programmatic activities of subrecipients throughout the life of each subaward. We are reviewing colleges' and universities' controls over the subcontracting of National Institutes of Health (NIH) grant and contract work.

As a recipient of NIH grant funds, Northwestern University (Northwestern) is subject to the requirements set forth in 45 CFR part 75 for subrecipient monitoring and Federal cost principles.

### OBJECTIVES

Our objectives were to determine whether Northwestern (1) awarded subawards and monitored subaward recipients in compliance with Federal regulations and (2) complied with Federal regulations and NIH grant policies relating to expenditures for subawards.

### BACKGROUND

#### National Institutes of Health

Within HHS, NIH is the agency that is responsible for the Nation's medical and behavioral research. Its mission is to seek fundamental knowledge about the nature and behavior of living systems and to apply that knowledge to enhance health, lengthen life, and reduce illness and disability. In Federal fiscal year (FY) 2015, NIH awarded more than \$16 billion in grants and contracts to domestic institutions of higher education, and in FY 2016, NIH awarded more than \$18 billion.

#### Northwestern University

Northwestern is a leading research university housing more than 90 school-based centers and more than 50 research centers. Northwestern has three campuses, one each in Evanston, Illinois, Chicago, Illinois, and Doha, Qatar.

---

<sup>1</sup> 2 CFR part 200.

NIH awarded Northwestern more than \$268 million in FY 2015 and more than \$307 million in FY 2016. Until the two offices merged in September 2017, the Evanston and Chicago campuses each had an Office of Sponsored Research (OSR) that conducted its own risk assessments of subrecipients.

### **Northwestern Affiliates**

Northwestern collaborates with its affiliates on programs, events, and initiatives. Northwestern affiliates include Northwestern Memorial Healthcare, Northwestern Medical Faculty Foundation, Northwestern Memorial Hospital, the Rehabilitation Institute of Chicago, and the Ann & Robert H. Lurie Children's Hospital of Chicago.

### **Federal Demonstration Partnership**

The Federal Demonstration Partnership (FDP) is a cooperative initiative among 10 Federal agencies and 154 institutional recipients of Federal funds that seeks to reduce the administrative burdens associated with research grants and contracts. FDP is an association of Federal agencies; academic research institutions with administrative, faculty, and technical representation; and research policy organizations that work to streamline the administration of federally sponsored research. FDP members of all sectors cooperate in identifying, testing, and implementing new and more effective ways of managing Federal research grants.

FDP membership requires a research institution to appoint representatives to the FDP, participate in FDP activities, pay an annual membership fee, maintain effective stewardship of Federal support, report annually on the institution's FDP work, and establish and maintain management and administrative procedures and systems that comply with the Federal Government's standards and requirements for administering Federal awards for research.

### **Federal Regulations**

The regulations at 45 CFR part 75 describe subrecipient monitoring and management requirements applicable to all non-Federal entities that provide a subaward to carry out part of a Federal program.<sup>2</sup> Northwestern, as a prime recipient and subrecipient, is required to comply with applicable Federal requirements and ensure that grant costs submitted for Federal reimbursement are reasonable, allocable, and otherwise allowable.

The regulations state that pass-through entities must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward to determine the appropriate subrecipient monitoring.<sup>3</sup>

---

<sup>2</sup> 45 CFR §§ 75.351 through 75.353.

<sup>3</sup> 45 CFR § 75.352(b).

This risk assessment may consider such factors as:

- the subrecipient's prior experience with the same or similar subawards;
- the results of previous audits, including whether or not the subrecipient receives an A-133 audit, and the extent to which the same or similar subawards have been audited as a major program;
- whether the subrecipient has new personnel or new or substantially changed systems; and
- the extent and results of HHS awarding agency monitoring (e.g., whether the subrecipient also receives Federal awards directly from a Federal awarding agency).

Federal criteria requires that costs:<sup>4</sup>

- be necessary and reasonable for the performance of the Federal award and be allocable under these principles,
- conform to any limitations or exclusions set forth in these principles or in the Federal award,
- be consistent with policies and procedures that apply uniformly to both federally financed activities and other activities of the non-Federal entity,
- be determined in accordance with Generally Accepted Accounting Principles, and
- be adequately documented.

### **Risk Assessment of Subrecipients by Northwestern**

Northwestern uses a risk-based approach to subrecipient monitoring, focusing on those subrecipients deemed at greatest risk for non-compliance. Criteria for assigning a level of risk includes:

- size of the subrecipient award,
- award size relative to the subrecipient's sponsored research portfolio,
- award complexity,

---

<sup>4</sup> 45 CFR § 75.403.



- prior experience with the subrecipient,
- percentage of award passed through to subrecipient,
- subrecipient location or for-profit status,
- degree of external oversight by auditors or sponsoring agencies, and
- sophistication of the subrecipient's administrative systems and operations.

Northwestern's risk analysis process included a check of the U.S. General Services Administration's System for Award Management website to determine whether the subrecipient:

- (1) had active registration,
- (2) had any active exclusion prohibiting it from receiving Federal funding, or
- (3) had any Federal debt subject to offset.

Northwestern also reviewed FDP's Financial Conflict of Interest (FCOI) Institutional Clearinghouse<sup>5</sup> to determine whether the subrecipient was in compliance with Public Health Service (PHS) FCOI Requirements.

Northwestern implements a level of departmental monitoring that reflects the risk or exposure that results from subcontracting the funds. If the subrecipient was subject to an A-133 audit, Northwestern used the summary of the auditor's results as another tool in determining the level of risk. If the subrecipient did not have an A-133 audit, Northwestern sent a subrecipient monitoring questionnaire to the subrecipient. Northwestern used the completed questionnaire to fill out a risk analysis spreadsheet. The answers are scored and totaled to arrive at a low, medium, or high risk assessment. If Northwestern determined that the subrecipient was a medium risk, Northwestern issued the award. Northwestern continued the risk analysis if the A-133 audit report identified high-risk areas and included findings.

## **HOW WE CONDUCTED THIS REVIEW**

Northwestern was the prime recipient of 229 NIH grants, totaling more than \$467 million, that contained subawards to other entities. The grants were for the period December 26, 2014, through December 31, 2016 (audit period). During the same period, Northwestern was the subrecipient of 304 grants, totaling more than \$92 million, which other NIH prime recipients awarded to Northwestern.

---

<sup>5</sup> Federal Demonstration Partnership, FDP FCOI Institutional Clearinghouse. Available online at <http://thefdp.org/default/fcoi-clearinghouse/>. Accessed on June 18, 2018.

We judgmentally selected 30 new or incrementally funded grants with subawards that were subject to 45 CFR part 75 and reviewed costs totaling more than \$808,000. We reviewed Northwestern's risk assessment and monitoring of the subrecipients and Northwestern's facilities and administrative (F&A) costs for each selected grant and verified that the claimed F&A rate was allowable.

We also judgmentally selected 30 grants with subawards Northwestern received from another NIH prime recipient that were subject to 45 CFR part 75 and reviewed costs totaling more than \$1,081,000. These costs were for salary and wages, equipment, supplies, travel, and the associated F&A costs and rates.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains the details of our audit scope and methodology.

## **FINDINGS**

Although Northwestern claimed allowable expenditures on subawards it awarded and received, it did not always perform required subaward risk assessments. For 24 of the 30 grants to subrecipients, Northwestern did not perform a risk assessment on 1 or more of the subrecipients. Federal funds of approximately \$9,744,000 were awarded to subrecipients without performing the required risk assessment.

### **NORTHWESTERN DID NOT ALWAYS PERFORM SUBRECIPIENT RISK ASSESSMENTS**

Federal regulations require pass-through entities to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward to determine the appropriate type of subrecipient monitoring.<sup>6</sup>

Northwestern did not always perform a risk assessment of grant subrecipients. For 24 of the 30 grants reviewed, Northwestern failed to perform a risk assessment on 1 or more of the subrecipients. The 30 grants had subawards to 61 subrecipients, 48 of which should have had a risk assessment, but did not. The remaining 13 subrecipients either had a risk assessment or were not required to have a risk assessment.<sup>7</sup> See the Table on the following page for details.

---

<sup>6</sup> 45 CFR § 75.352(b).

<sup>7</sup> Five subrecipients had no incremental funding subject to 45 CFR part 75, and one was a foreign Federal entity.

**Table: Status of Risk Assessments Conducted for Subrecipients**

<b>Number of Grants</b>	<b>Number of Subrecipients</b>	<b>Risk Assessment Completed<sup>8</sup></b>	<b>Risk Assessment Not Required</b>	<b>Risk Assessment Required But Not Performed<sup>9</sup></b>	<b>Amount Awarded to Subrecipients Without Risk Assessments</b>
20	20	4		16	\$3,979,586
4	8	2	2	4	278,843
1	3		2	1	64,284
2	8			8	1,664,808
1	5		1	4	431,222
1	7	1	1	5	173,067
1	10			10	3,152,039
<b>30</b>	<b>61</b>	<b>7</b>	<b>6</b>	<b>48</b>	<b>\$9,743,849</b>

Northwestern did not always conduct a risk assessment on its affiliates and FDP member organizations.<sup>10</sup> In FYs 2015 and 2016, Northwestern categorized the affiliates and FDP member organizations as low risk solely because Northwestern’s institutional experience with these organizations was positive, and Federal awarding agencies had made awards to the organizations. Additionally, although required under 45 CFR part 75, Northwestern did not always perform risk assessments of subrecipients that were issued initial subawards before December 26, 2014, but received incremental funding after December 26, 2014.

Neither Federal statutes, regulations, nor the terms and conditions of subawards permit prime Federal award recipients to exempt affiliates, FDP members, or subrecipients from a risk assessment. Because Northwestern classified some of its subrecipients as low risk, it did not perform a risk assessment on associated Federal funds of approximately \$9,744,000.

---

<sup>8</sup> The Evanston OSR performed six risk assessments, and the Chicago OSR performed one risk assessment. Evanston’s OSR conducted risk assessments on all subrecipients.

<sup>9</sup> The subrecipient was an FDP member (35), had incremental funding subject to 45 CFR part 75 (10), or is a Northwestern affiliate (3).

<sup>10</sup> Northwestern had two OSR offices, one for the Evanston campus and one for the Chicago campus. The Evanston OSR did not have the same risk assessment procedures as the Chicago OSR. The Evanston OSR performed risk assessment on all subrecipients. The Chicago OSR risk assessment procedures viewed affiliates and FDP members as low risk. The Evanston OSR and Chicago OSR offices merged in September 2017, and the combined offices follow Evanston’s procedures for subrecipient risk assessments.

## **SUBAWARD EXPENDITURES WERE ALLOWABLE**

Of the \$1.8 million in subaward costs reviewed as part of our judgmental sample, Northwestern claimed allowable costs on subawards awarded and received. Northwestern followed NIH grant policies and Federal regulations for these subaward expenditures for each selected grant. In addition, Northwestern claimed allowable F&A costs at the appropriate F&A rate.

## **RECOMMENDATIONS**

We recommend that Northwestern:

- establish policies to perform subrecipient risk assessments for affiliates, FDP members, and non-Federal subrecipients subject to 45 CFR part 75, and
- ensure that subrecipient risk assessments are performed on all non-Federal subrecipients subject to 45 CFR part 75.

## **NORTHWESTERN COMMENTS**

In written comments on our draft report, Northwestern concurred with our recommendations and provided details about corrective actions it has taken such as establishing policy that addresses the roles and responsibilities associated with managing subawards, including performing risk assessments on all subrecipients. Northwestern's comments are included in their entirety as Appendix B.

## **APPENDIX A: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

Northwestern was the prime recipient of 229 grants from NIH. These awards either were made on or after December 26, 2014, or were awarded before that date but later provided incremental funding during the audit period (December 26, 2014, through December 31, 2016).

Northwestern issued subawards to various colleges, universities, and other entities for a portion of these grant funds, which Northwestern administered under 45 CFR part 75. For these 229 grants, Northwestern received more than \$467 million and claimed costs totaling more than \$361 million, of which more than \$92 million were subrecipient costs. From the 229 grants, we selected a sample of 30 grants for review.

Northwestern was the subrecipient of 304 grants that NIH had awarded to prime recipients, or were previously awarded and then provided incremental funding, during the audit period. Northwestern administered the awards and incremental funding under 45 CFR part 75. For these 304 grants, Northwestern received more than \$92 million and claimed costs totaling more than \$69 million. From the 304 grants, we selected a sample of 30 grants for review.

We limited our internal control review to obtaining an understanding of Northwestern's policies and procedures for monitoring subrecipients and claiming costs as a subrecipient.

We conducted our audit, which included fieldwork at Northwestern in Evanston, Illinois, from May 2017 through May 2018.

### **METHODOLOGY**

To accomplish our objectives, we:

- reviewed applicable Federal laws, regulations, and guidance;
- contacted NIH officials regarding Northwestern's use of membership in the FDP as a basis for a low risk assessment and reviewed applicable NIH grant policies and procedures;
- obtained a legal opinion from the HHS Office of Counsel to the Office of Inspector General regarding Northwestern assessing subrecipients as low risk if they are FDP members or affiliates;
- reviewed FDP membership requirements;
- held discussions with Northwestern officials regarding grant policies and procedures for monitoring subrecipients and claiming allowable costs;

- reviewed a judgmental sample of 30 of 229 grants that NIH awarded and incremental funding that it provided to Northwestern on or after December 26, 2014, and that contained a subaward from Northwestern to another entity;<sup>11</sup>
- reviewed a judgmental sample of \$808,880 in costs incurred by Northwestern’s subrecipients;<sup>12</sup>
- reviewed Northwestern’s risk assessment and monitoring of the subrecipients;
- reviewed a judgmental sample of 30 of 304 grants that NIH awarded and incremental funding that it provided on or after December 26, 2014, for which Northwestern was a subrecipient;<sup>13</sup>
- reviewed a judgmental sample of \$1,081,521 in costs Northwestern claimed as a subrecipient;<sup>14</sup>
- reviewed Northwestern’s HHS-approved rate agreement for the F&A cost rates applicable to the audit period and F&A costs for each selected grant and verified that the claimed F&A rate was allowable; and
- discussed our results with Northwestern on April 27, 2018.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

---

<sup>11</sup> We designed the sample to target a variety of awards based on location, type of recipient, and amount of awards and subawards.

<sup>12</sup> We designed the sample to target a variety of high and low expenses and types of expenses.

<sup>13</sup> We designed the sample to target a variety of awards based on location, prime recipients, and amount of awards and subawards.

<sup>14</sup> We designed the sample to target a variety of high and low expenses and types of expenses.

## APPENDIX B: NORTHWESTERN COMMENTS

Northwestern

Northwestern University  
Office of Financial Operations  
619 Clark Street, Room 111  
Evanston, Illinois 60208

m-daniels2@northwestern.edu  
Office: 847.491.4716

October 3, 2018

Report Number: A-05-17-00016

Sheri L. Fulcher  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services, Region V  
233 North Michigan, Suite 1360  
Chicago, IL 60601

Dear Ms. Fulcher:

Please find below Northwestern University's responses to the recommendations in the draft report entitled *Northwestern University Did Not Always Comply with Federal Requirements to Perform Risk Assessments of Subrecipients, but Claimed Allowable Costs*.

### Recommendation 1:

Establish policies to perform subrecipient risk assessments for affiliates; FDP members; and non-Federal subrecipients subject to 45 CFR part 75.

Northwestern University concurs with this recommendation. The University has an established policy entitled *Subcontracting on Sponsored Programs*, [https://osr.northwestern.edu/sites/osr/files/subcontractpolicy\\_2015amend.pdf](https://osr.northwestern.edu/sites/osr/files/subcontractpolicy_2015amend.pdf). The policy includes the roles and responsibilities associated with managing subawards, including performing risk assessments on all subrecipients, including affiliates, FDP members, and non-Federal subrecipients, to which a federal subaward is issued.

### Recommendation 2:

Ensure that subrecipient risk assessments are performed on all non-Federal subrecipients subject to 45 CFR part 75.

Northwestern University concurs with this recommendation. In order to further strengthen the University's oversight of subcontracts, a reorganization of the Office for Sponsored Research in February 2018 resulted in the creation and appointment of an Associate Director for Subcontracts Management to oversee subcontract business processes, including completing subrecipient risk assessments, training subcontract staff, and monitoring daily subcontract operations. In addition, as part of the business improvement process for the office, the Associate Director ensures risk assessments are conducted on all non-Federal subrecipients subject to 45 CFR part 75, and are properly filed.

Sheri L. Fulcher  
Regional Inspector General  
for Audit Services  
October 3, 2018  
Page 2

We look forward to resolving this matter and receiving your final report. Please let me know if you have any questions.

Sincerely,

Michael Daniels

Michael Daniels  
Executive Director  
Research Financial Operations