

University of Florida Pays \$20 Million for Failing History Lessons

Written by Nick Sanders

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In 1994, Stanford University paid \$1.2 million to the U.S. Navy, to settle allegations that it had “overcharged the government for research overhead for 12 years,” according to one contemporaneous [news report](#). That same article noted that the settlement settled years of rancorous dispute, which included a lawsuit alleging that Stanford owed \$250 million for such no-nos as “depreciation of a 72-foot yacht, a steady supply of fresh flowers for [Stanford President] Kennedy's residence and upkeep of the mausoleum where the founding Stanford family is buried.” The fact that the Navy accepted a token \$1.2 million settlement offer is testimony to the weakness of its case, but that didn't stop Kennedy from resigning under fire.

The settlement did not end the relator's *qui tam* suit against Stanford, which continued even though the Department of Justice declined to intervene. As this

[press release](#)

noted, “The Justice Department chose not to join the suit after it investigated for more than two years, during which the university responded to 11 subpoenas for information and provided 150,000 pages of documents.” Four years later, the Ninth Circuit of the Court of Appeals ruled that the relator, a former Naval employee, was not eligible to bring a suit under the False Claims Act. Why? Because the relator, Mr. Paul Biddle, was the Navy's Contracting Officer. The court found that an employee in such a situation “should not collect a windfall for merely doing his job.” Mr. Biddle pursued his crusade against Stanford for roughly eight years before his suit was finally rejected.

The ruling – that a government employee cannot separately pursue a False Claims Act suit and profit thereby when it is his or her job to protect the taxpayers' interests – was so important at the time that it still resonates, more than 20 years later.

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What also still resonates, more than 20 years later, was the pain and indignity heaped upon Stanford University, which is one of the nation's premier institutions of higher education. As noted, the University President was forced to resign. In addition (according to this [summary](#)),

The revelations led to embarrassing Congressional hearings, at which lawmakers ridiculed the university for having included a portion of the cost of questionable items including the depreciation of a yacht, flowers, and furniture for the former president's residence on its bills to the government for research overhead. Stanford withdrew those charges before the hearings, but after Congress had begun its inquiry. ... The government substantially lowered Stanford's rate for overhead reimbursements. The institution conceded that it had made accounting errors and inappropriate charges, but said it had not intentionally overbilled. ... The scandal eventually engulfed other research universities and led to a series of moves by the government to tighten the rules for reimbursing colleges for research costs.

The point is, even though this all happened long ago, it was an important case with far-reaching implications—not only for Stanford but also for “other research universities.” This was a big deal at the time and it led to a “tightening” of the rules related to how colleges and universities are reimbursed for indirect costs allocated to research contracts and grants. Everybody was supposed to learn a lesson from the pain and indignity heaped upon Stanford University.

And now it appears that the University of Florida forgot the lesson.

We know this because of a recent DoJ press release that [announced](#) that the University of Florida had agreed to pay just a hair under \$20 million to settle allegations that “the university improperly charged the U.S. Department of Health and Human Services (HHS) for salary and administrative costs on hundreds of federal grants.” According to the announcement—

The University of Florida receives millions of dollars in grant funding from HHS on hundreds of grants each year.Â The settlement announced today resolves the alleged misuse of grant funds awarded by HHS to UF between 2005 and December 2010.Â The United States contended that the university overcharged hundreds of grants for the salary costs of its employees, where it did not have documentation to support the level of effort claimed on the grants for those employees.Â The government also contended that UF charged some of these grants for administrative costs for equipment and supplies when those items should not have been directly charged to the grants under federal regulations. Lastly, UF allegedly inflated costs

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charged to HHS grants awarded at its Jacksonville campus for services performed by an affiliated entity, Jacksonville Healthcare Inc.

So the issues were: (1) timekeeping/labor accounting problems, (2) direct versus indirect charging, and (3) transfer pricing of inter-organizational transfers. You might say that those were different issues than those faced by Stanford 20 years ago, and you'd be right. But that argument misses the point: research universities were put on notice 20 years ago that the government would audit and scrutinize charges to contracts and grants and, as a result, those research universities would have to be vigilant to ensure that they were strictly complying with applicable rules and regulations.

The lesson was clearly communicated and many recipients of federal funds heard it loud and clear. But either the University of Florida never received the message, or else it forgot the lesson over the passage of time. As a result, the University and its faculty and students are now \$20 million poorer.