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Section



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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CIVIL DIVISION

Dear Dr. Allen :

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During our current review of affiliation agreements between Veterans Administration (VA) hospitals and private schools of medicine, we have noted certain matters regarding the administration of research in the VA Hospital, Palo Alto, California (VAHPA) which we would like to bring to your immediate attention because of possible savings in research funds. The research at VAHPA was performed under grants awarded by the National Institutes of Health (NIH) and the National Institutes of Mental Health (NIMH) of the Public Health Service (PHS) to the Stanford University School of Medicine (Stanford). Our review is still in progress at six other VA hospitals which have a substantial amount of PHS research funds which are administered by affiliated medical schools. In this regard, VA records indicate that more than \$15 million of university administered research was performed in VA hospitals during fiscal year 1969, and we were advised by VA officials that probably more than 90 percent of this was funded by PHS.

The matters discussed below are concerned with (1) the possibility of reducing the indirect cost of research performed under PHS grants by awarding the grants directly to VA hospitals, and (2) the use of an inappropriate indirect cost rate for certain research at VAHPA.

OPPORTUNITY FOR REDUCING
INDIRECT COST OF RESEARCH

Our review of 17 medical research grants awarded by NIH and NIMH to Stanford disclosed that during fiscal year 1969, 100 percent of the research was conducted at the VAHPA for 15 of these grants and about 90 percent of the research was conducted at VAHPA for the remaining two grants. In all but one case, the principal investigator was employed by the VA as a physician or researcher. Total fiscal year 1969 costs charged to these grants were about \$865,000.

These grants were awarded based on applications submitted by the principal investigators through Stanford. In each case the applicant organization was shown as Stanford University, and in nearly all cases the grant applications indicated that a high percentage of the research was to be conducted in Federal facilities.

Our review has indicated that the overhead or indirect cost rates applied to these grants by Stanford generally ranged from 43 to 57 percent of direct labor cost. The 43 percent rate was negotiated by the Government with Stanford University for research performed off-campus and the 57 percent rate

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was negotiated for research performed on-campus. Both of these rates were negotiated for the entire Stanford campus with no separate rate developed for the medical school. Total indirect costs charged to these 17 grants by Stanford during fiscal year 1969 amounted to about \$175,000.

With the passage of Public Law 90-31 on June 24, 1967, the Congress provided for the award of PHS research grants directly to VA hospitals. This law was partially implemented on August 20, 1968, by means of an agreement between the Department of Health, Education, and Welfare (HEW) and VA calling for the assignment of an indirect cost rate of 15 percent of direct labor to HEW grants awarded to VA hospitals. Our review disclosed that if these grants had been awarded directly to VAHPA rather than to Stanford, the VA indirect cost rate of 15 percent of direct labor would have been assigned for a total indirect cost of about \$61,000. This would have been about \$114,000 less than the amount charged PHS by Stanford (see enclosure I).

Since VAHPA has in recent years administered VA appropriated research funds (over \$800,000 in fiscal year 1969) a functioning research administration organization already exists at the hospital. In our opinion, the potential incremental cost of VAHPA of administering these PHS grants would be adequately covered by the 15 percent indirect cost rate called for in VA regulations. Based on the estimates of officials at VAHPA the 15 percent rate applied to direct labor would cover all costs except research facilities depreciation and maintenance costs. Since VA is not being reimbursed for these costs even with Stanford administration of the grants, it appears that no additional "out of pocket" costs would accrue to the Government in excess of the 15 percent indirect rate if these grants were awarded to VAHPA rather than Stanford.

We believe PHS, specifically NIH and NIMH, should endeavor to minimize the indirect cost of its grant research without detracting from the quality of the research. In our opinion, a practical method of accomplishing this is to award the research grant to the organization providing a majority of the facilities and personnel used in the performance of the research. Accordingly, we believe that any research performed by VA employees in VA facilities should be VA administered, and the grant which provides the funding for that research should be awarded to the VA rather than to an intermediary.

We would appreciate your comments on the above conclusions. If you agreed with our conclusions, we suggest that PHS, specifically NIH and NIMH, review all existing grants and identify those which are being performed by VA and administered by non-Federal institutions. In those instances where significant savings are possible, we believe that at the expiration of the current funding increment, PHS should take action to award these grants to VA hospitals rather than to their affiliated medical schools.

USE OF INAPPROPRIATE
INDIRECT RATE

Our review disclosed that four of the 17 grants were charged the on-campus

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rate of 57 percent by Stanford even though the research was conducted almost exclusively in the VAHPA. Since the Stanford on-campus rate includes costs for depreciation of campus buildings and equipment as well as campus operation and maintenance costs we questioned the propriety of using the on-campus rate for research conducted in the VAHPA. Stanford officials acknowledged that this was a mistake. They stated that the off-campus rate of 43 percent should have been used, because the VAHPA is considered an off-campus research location for indirect cost purposes. If the off-campus rate of 43 percent had been used as appropriate, indirect costs under these grants would have been reduced by about \$14,600 (see enclosure II).

We would appreciate being informed of the action taken to recover the overpayment of \$14,600 and suggest that a review should be made of all currently active research grants awarded to Stanford to ascertain that the appropriate indirect rate is being charged.

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The above matters have been discussed with Mr. Paul E. Fox, Dr. Robert P. Akers, and Mr. Joseph V. Moran, PHS grants management officials. If you so desire, we shall be pleased to discuss them with you or members of your staff.

Sincerely yours,

Willis L. Elmore

for
Dean K. Crowther
Assistant Director

Enclosures - 2

Dr. Ernest M. Allen
Deputy Assistant Secretary for
Grant Administration Policy
Office of Secretary
Department of Health, Education, and Welfare

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GRANTS AWARDED TO STANFORD BY PHS
FOR RESEARCH PERFORMED AT VAHPA

<u>Grant number</u>	<u>Negotiated indirect rate on direct labor</u>	<u>Estimated percent of work at VAHPA</u>	<u>Fiscal Year 1969 indirect charges</u>	<u>Fiscal Year 1969 indirect cost computed at 15 percent</u>	<u>Possible reduction in indirect cost if awarded to VAHPA</u>
<u>National Institutes of Mental Health</u>					
MH 3030	43	100	\$ 22,593	\$ 8,002	\$14,591
MH 5144	43	100	24,695	9,955	14,740
MI 14528	43	100	6,871	2,419	4,452
M 16185	42	100	1,096	390	706
MH 10976	20 ^a	100	26,336	11,812	14,524
MH 16026	57	100	10,062	2,648	7,414
MH 15976	43	100	6,055	2,112	3,943
MH 13860	57	90	<u>44,660</u>	<u>11,752</u>	<u>32,908</u>
Total NIMH grants			<u>142,368</u>	<u>49,090</u>	<u>93,278</u>
<u>National Institutes of Health</u>					
GM 16453	43	100	300	117	183
NB 03821	43	100	6,079	2,123	3,956
NB 07380	42	100	2,628	930	1,698
NB 02785	43	100	3,440	1,200	2,240
HE 10085	57	100	201	53	148
AM 07469	57	100	4,578	1,205	3,373
HE 08388	43	100	3,882	1,354	2,528
HD 02693	43	100	4,328	1,514	2,814
AM 05678	51.3	90	<u>7,598</u>	<u>3,819</u>	<u>3,779</u>
Total NIH grants			<u>33,034</u>	<u>12,315</u>	<u>20,719</u>
TOTAL PHS GRANTS			<u>\$175,402</u>	<u>\$61,405</u>	<u>\$113,997</u>

^a 20 percent of total direct cost

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INAPPROPRIATE USE OF ON-CAMPUS
INDIRECT EXPENSE RATE

<u>Grant number</u>	<u>Fiscal Year 1969 direct labor</u>	<u>Applied indirect expense (57 percent)^a</u>	<u>Computed indirect expense (43 percent)^b</u>	<u>Overcharged indirect expense</u>
<u>National Institutes of Mental Health</u>				
MH 13860-02	\$78,352	\$44,660	\$33,691	\$10,969
MH 16026	<u>17,652</u>	<u>10,062</u>	<u>7,590</u>	<u>2,472</u>
Total for NIMH	<u>96,004</u>	<u>54,722</u>	<u>41,281</u>	<u>13,441</u>
<u>National Institutes of Health</u>				
HE 10085-03	352	201	151	50
AN 07469	<u>8,032</u>	<u>4,578</u>	<u>3,454</u>	<u>1,124</u>
Total for NIH	<u>8,384</u>	<u>4,779</u>	<u>3,605</u>	<u>1,174</u>
Total for PHS	<u>\$104,388</u>	<u>\$59,501</u>	<u>\$44,886</u>	<u>\$14,615</u>

^a Stanford University "On-campus" rate.

^b Stanford University "Off-campus" rate.

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