

NATIONAL PROGRAM INSPECTION:

**EARNING INTEREST
ON FEDERAL FUNDS**

FOLLOW-UP REPORT

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SEATTLE, WA OFFICE

OFFICE OF ANALYSIS AND INSPECTIONS
OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF HEALTH AND HUMAN SERVICES

EARNING INTEREST ON FEDERAL FUNDS

"Phase II" Follow-Up Report

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INTRODUCTION TO FOLLOW-UP REPORT

In August 1985, the HHS Office of Inspector General issued a national program inspection report entitled "Earning Interest on Federal Funds" (P-09-86-00055). This report resulted from a study which sampled from 4,000 nonprofit grantees of HHS, generally excluding universities, hospitals and state and local government grantees. This report is now dubbed the "Phase I" report.

Since August 1985, the Office of Inspector General has completed a follow-up or "Phase II" study of selected university, hospital and local government grantees for the purpose of determining their similarity to the statistically valid sample of other nonprofit grantees studied in Phase I of the program inspection. All grantees studied were non-state grantees and, therefore, required to return any interest earned on federal funds.

In the meantime, in response to the Phase I report, the Office of Management and Budget has published a proposed revision to Circular A-110 (Federal Register, Vol. 50, No. 210, October 30, 1985). This revision (see Attachment I), if finalized, will require nonprofit grantees (excluding local governments) to maintain federal funds in interest-bearing accounts and to remit earned interest to the federal government unless such interest totals less than \$100 per year on all federal funds received by a given grantee.

This report of the Phase II study includes an analysis of the government-wide fiscal impact of the proposed change to OMB Circular A-110, as well as consideration of extending this policy to local government grantees not governed by OMB Circular A-110.

FINDINGS IN BRIEF

HHS FINDINGS:

1. Virtually no Phase II HHS grantees report or return interest to the federal government, compared to 4% of the Phase I grantees found to be doing so.
2. Like Phase I grantees, about 80% of the Phase II grantees claim to be keeping federal funds in non-interest-bearing accounts. Phase II showed that many grantees, especially large ones, are quite likely to be moving excess federal funds into investment or other accounts while reporting "no interest earned," due to a bifurcation of accounting and banking systems within their organizations. Institution-specific audits would be required to verify this practice and its impact.
3. Large grantees invariably base letter-of-credit drawdowns on checks written rather than funds exiting the bank, which means that there is at least a 6-day "float" period during which federal funds draw or could draw bank interest.
4. Drawdown practices of local governments and hospitals appear similar to those of Phase I grantees, averaging once every three weeks. Universities typically draw down weekly. About one-quarter of the Phase II grantees admitted that their drawdowns routinely exceed the amount of funds disbursed for that period.
5. A conservative estimate of federal dollars lost annually by grantee failure to earn or return interest on OHDS and PHS non-state grants is as follows:

Phase I:	Nonprofits	\$4.25 million
Phase II:	Local Governments/School Districts/Hospitals	1.29 million
	Universities "float"	<u>1.35 million</u>
		\$6.89 million

However, institution-specific audits, especially of large grantees, would probably confirm much larger multi-year federal interest losses. Bank deregulation in 1986 may make interest potential much higher thereafter.

GOVERNMENT-WIDE APPLICATIONS:

6. Had the proposed revision to OMB Circular A-110 been in effect in FY 1985, interest returned to the federal government by nonprofit grantees (excluding local governments) would have been \$13-15 million for that one year.
7. Were the same rule extended to local government grantees by revision of OMB Circular A-102, as well as OMB Circular A-110, then the total amount of interest returned annually on these federal funds would be over \$41 million.

RECOMMENDATIONS

1. The proposed revision of OMB Circular A-110 should be finalized to require nonprofit grantees to maintain federal funds in bank accounts which pay interest.
2. OMB Circular A-102 should also be revised to apply the same policy to local government grantees.
3. HHS Regulation 45 CFR 74 should be revised and enforced in accordance with OMB Circular changes; but regardless of such changes, HHS program officials should actively encourage and monitor use of interest-bearing accounts and the reporting and return of interest earned. Contract auditors should be explicitly instructed to identify interest earned on federal funds.
4. HHS/OIG Office of Audit should undertake audits of selected large grantees, especially universities, with respect to interest earned on federal funds. Preferably, HHS should conduct university audits as the "cognizant agent" for all federal agencies. Ideally, such audits might be done under PCIE auspices and might involve interdepartmental teams of auditors.

"PHASE II" STUDY: PURPOSE AND APPROACH

The National Program Inspection "Earning Interest on Federal Grant Funds," (August 1985) was based upon a statistical sample selected from about 4,000 non-state grantees of OHDS and PHS. These were grantees judged to be more appropriate for a mail survey approach than another unsampled group of over 9,000 grantees. This latter group excluded from the universe sampled included all hospitals, colleges, universities, local governments and school districts.

The key findings of the August 1985 Inspection were as follows:

- Of about 4,000 nonprofit grantees of the Office of Human Development Services (OHDS) and the Public Health Service (PHS) who were studied in Phase I, 80% do not earn interest on federal funds kept in banks, 16% earn interest but do not report or return any to the federal government and only 4% earn and return interest.
- Some 94% of all grantees elect to commingle their federal grant funds in bank accounts with nonfederal funds. The mean average daily balance in these accounts is \$65,831, of which the federal share is \$20,129, or about 31%.
- The amount of federal funds lost by these nonprofit grantees who fail to collect or return interest is \$4,250,000 per year. However, this amount may be significantly higher due to bank deregulation in 1986, when banks may competitively pay more than 5-1/4% interest.
- About 80% of these same nonprofit grantees are also losing an additional \$8 million per year in interest on nonfederal funds kept in non-interest-bearing accounts. Again, this loss may be higher after bank deregulation.
- If it is assumed (or later proven) that these findings are also representative of the 9,000 to 10,000 other grantees of OHDS and PHS who are required to return interest but were not sampled in this study (including private hospitals and colleges, school districts, local governments and other grantees), then the lost interest totals over \$13 million per year in federal funds, plus about \$25 million per year in nonfederal funds.

"Phase II" of this study was designed to shed further light on the last finding, the issue as to whether private university, local government, school district and hospital grantees have the same interest practices as the other non-state grantees.

From the FY 1984 grants lists of OHDS and PHS, we selected (non-randomly) a group of 30 grantees. Our intent was to select grantees including (a) private universities/colleges, (b) local governments/school districts, and (c) private or local government hospitals/medical centers. We sought to avoid concentration of these grantees in one state or geographic area, and we wanted to have between 5-10 grantees for each type whose cash reports we could obtain from HHS payment centers.

The sample finally selected and the grantees contacted include 8 hospitals with a quarterly drawdown of about \$10 million, 10 local government or school district entities with a quarterly drawdown of about \$17 million, and 12 universities with a quarterly drawdown of about \$133 million in HHS funds. These 30 grantees, therefore, draw approximately \$150 million per quarter or \$600 million per year

in HHS dollars. These 30 grantees represent less than 5% of the non-state grantees of OHDS and PHS, but nevertheless draw more than 15% of the federal dollars going to all non-state grantees under those programs nationwide.

This Phase II sample, in dollar terms, is more than twice as large as the statistically valid sample of grantees drawn in Phase I: \$600 million (compared to \$253 million) even though it includes only 30 grantees (compared with the Phase I final sample of 432 grantees).

	<u>Phase I</u>	<u>Phase II</u>
Grantees	432	30
Annual HHS \$	\$253m	\$600m
Sample	Random	Non-random
Universe of Grantees	c.4000	c.8000
Universe of HHS \$	c.\$1.6 Billion	c.\$2.2 Billion

Our approach to grantees in Phase II was by telephone only, and far less rigorous than the approach in Phase I. No bank records were reviewed in Phase II. Rather, the respondent's answers are taken at face value on issues actually verified in Phase I: i.e., whether the bank accounts used for federal funds are interest-bearing or not.

The grantee official contacted in Phase II was ordinarily the financial officer who signs the quarterly federal cash transactions report (PMS 272) on which is certified the amount of interest earned on the federal funds. Frequently, however, it was necessary to talk with other persons in the organization to learn the nature of the bank accounts used by these organizations.

FINDINGS OF PHASE II

Interest Seldom Reported

Only one of the grantees sampled in Phase II reported any interest earned in the quarter reviewed. Moreover, all respondents confirmed that this is the usual pattern. Most stated flatly, "We never report any interest on federal funds."

The one grantee sampled who had reported interest, Case Western University, said that this instance was actually the only time in recent memory that interest on HHS funds had been reported. For this quarter project disbursements were so far below estimates that the financial manager felt it was incumbent to report interest. In retrospect, he regretted having done so because that quarterly report brought inquiries from the HHS Payment Management Center as to why he had drawn so much extra federal cash. The lesson he learned, he said, was that "reporting interest is a sure way to get your drawdowns scrutinized."

In sum, it appears that the Phase II grantees virtually never report interest on HHS funds, and that the Phase I estimate that 4% of grantees report interest may be too high for the whole population of non-state grantees.

This means that Phase II grantees either (a) earn interest on federal funds without reporting it or (b) do not earn interest on federal funds, either because these funds are not kept in interest-bearing accounts or because grantee disbursements always equal or exceed the federal funds on hand. We will explore each of these possibilities in turn.

Use of Interest-Bearing Accounts

In Phase I, we viewed actual bank statements which indicated that no interest was being paid to the holders of those accounts in 80% of the cases. In Phase II no bank statements were viewed; Phase II findings are based solely upon the statements of the grantees contacted.

Roughly the same percentage of Phase II grantees indicated that the federal funds go into non-interest-bearing accounts. Queried as to why large amounts would be held in such accounts, grantees commonly responded that it is the organization's policy to avoid earning interest on the federal funds because they believe that it is not allowed, or because they would have to return the money anyhow, or because accounting for the federal share of interest would be burdensome.

However, several university respondents mentioned that the operating accounts into which federal letter-of-credit funds go are "kept at a low balance" or frequently emptied into any institutional operating account or investment account which does draw interest.

With all the universities contacted as well as many of the larger local government and hospital grantees, a pattern of bifurcation between the accounting function and the banking/investment function was clearly evident. In fact, many of the very officials who sign the quarterly federal cash management reports indicating "no interest earned" did not know whether the bank accounts used were interest-bearing or not; they referred us to the "treasurer's office" or had to make a secondary inquiry themselves to answer this question. They routinely base their official quarterly affirmation of "no interest earned" on their

drawdown and accounting system rather than on the actual bank statements. In other words, these reporting officials often don't know what's happening with the actual bank account.

The Treasury Department Fiscal Manual (TFM 2080.30) and HHS grants management regulations (45 CFR 74.91) stipulate that letter-of-credit funds should be drawn only in amounts needed for "immediate disbursement." We verified that in every case, "disbursement" is defined by grantees as the writing of checks or vouchers, or "running the payroll"--not as the actual exit of funds from the grantee's bank account. In most cases of the larger Phase II grantees, the accounting office which completes the quarterly cash management report (PMS 272) has neither actual knowledge of the bank events nor any system to track the actual exit of federal grant funds from the bank account.

This in itself does not prove that these grantees are earning interest on federal funds, but it does explain how the large institutions could routinely be reporting "no interest earned" when, in fact, their cash management office (separate from accounting) may indeed be investing excess cash routinely.

In sum, most Phase II grantees, like Phase I grantees, are reportedly putting their federal funds into non-interest bank accounts, but there is a strong possibility that excess funds are routinely switched over to investment or interest accounts, possibly without knowledge or control by those officials who report "no interest earned" to the federal government. It is therefore possible that interest is being earned on federal funds remaining in the bank--whether or not the accounting office lists them as "disbursed." The second half of the question is whether such excess federal cash is actually present in the bank accounts. This raises the issue of the grantees' drawdown practices and the rate at which checks, once written, cause funds to actually exit the bank accounts.

Drawdown Practices and "Float" Periods

Phase I grantees averaged payments about once per month (for those paid by treasury check) and about once every three weeks (for letter-of-credit grantees). Phase II grantees appeared quite similar. Local governments and hospitals routinely draw on their letter-of-credit either once or twice per month, with few exceptions. Universities show a prevailing practice of weekly drawdowns, with a few drawing more or less frequently. It was common for Phase II grantees to mention that they try to draw primarily in relation to their bi-weekly or monthly payrolls, or their weekly "accounts receivable" runs.

In Phase II, 17 of the 30 grantees stated that they normally try to draw down in advance of disbursement or to coincide with disbursement (defined as check or payroll writing). Eight of these said their federal funds accounts tend to run lower balances than their disbursements, five said that they ran about par, and four said that their federal fund balances are usually higher than their disbursements.

Thirteen of the 30 grantees said that they draw down only after disbursement has occurred (checks or payroll have been written), and these invariably claimed that their federal fund balances were lower than their disbursements most of the time. Some of these, however, draw down immediately after running their payroll or accounts receivable, so that the federal letter-of-credit funds may routinely reach the bank via electronic fund transfer before most of the checks or payroll withdrawals get there.

This raises the question of the "float" period--the time between the grantees' writing of a check and the corresponding exit of funds from the grantee's bank account. Phase II respondents estimated anywhere from 3 to 30 days as their normal "float" period on warrants, with a prevailing estimate of about 7 days.

Payroll payments sometimes go directly into employee's personal accounts (and therefore exit the grantee's account) almost immediately if the employees have agreed to "direct deposit." Phase II respondents varied considerably on direct deposit practices; but only about one-third indicated that more than half of their employees were on direct payroll deposit, with lower levels of direct deposit for other persons paid from federal grant funds, such as sub-contract staff. Assuming that half the federal funds go for payroll and that one-third of payroll is direct deposit, the average float period of seven days would be reduced by $(.5 \times .33 + 7)$ or about one day. It is therefore conservative, we believe, to estimate the overall average grantee "float" period at six days.

This means that the average federal grant dollar probably sits in the bank for six days after disbursement (the time the check or payroll is written), assuming that the federal dollar is there at the time of disbursement.

In summary, Phase II grantee responses indicate that about half are drawing down their federal funds on a par with their disbursement rates, about a quarter at a rate higher than their disbursement rates, and about a quarter at a rate lower than their disbursement rates. Only an individual audit of drawdowns and disbursements could definitely determine this pattern for each grantee.

However, all grantees define "disbursement" as checks written rather than as funds exiting the bank. Even allowing for employees paid via direct deposit, it is estimated that federal funds remain in the bank an average of six days after "disbursement."

Therefore, interest either (a) could be earned or (b) is being earned on at least the six-day "float" of federal money, plus any funds drawn down in advance of the date of "disbursement" by some grantees. But the government is receiving the benefit of none of this actual or potential interest.

Overall Findings--Phase II

The Phase I report found that \$4.25 million is lost annually in interest not earned and/or not returned on federal funds to one group of non-state grantees. This was based on actual bank statements and federal cash reports of these grantees. The report estimated that an additional \$8.9 million may be lost annually in federal interest if all other non-state grantees are like the Phase I group.

Phase II is able to verify some of the similarities of grantees to the Phase I sample, but unable to fully substantiate the potential savings beyond an additional \$2.64 million. The Phase II estimate, therefore, is that overall, at least \$6.89 million per year is being lost in interest not earned or not returned by OHDS and PHS non-state grantees.

Specifically, the Phase II study sampled from a universe of over 9,000 grantees, whose FY 1984 grants totaled some \$2,169 million. Of this amount, some \$1,485 million went to private university/college grantees, and the other \$684 million primarily to local governments and hospitals.

Phase II discussions with the sampled grantees indicate that they closely resemble the grantees sampled in Phase I with respect to drawdown rates and accounting/banking practices. Based upon an average drawdown rate of once every three weeks, these grantees are estimated to have an average daily bank balance of 3.4% of their annual grant amounts. This represents approximately the "expected" pattern for such grantees, although Phase I grantees were found to be carrying higher balances in many cases. We, therefore, consider a conservative estimate for annual lost interest among this group to be:

Local Governments/School Districts/Hospitals:

$$\$684 \text{ million} \times 3.4\% \times 5.54\%^* = \underline{\$1,288,382}$$

Annual Lost Federal Interest

Universities and colleges, by contrast, were found in the Phase II study to be less similar to other grantees in some respects. Their drawdown pattern is more frequent (usually weekly), and their average federal dollar volume per grantee is probably much higher. Using the same formula as above, we could estimate their "expected" average daily bank balance to be 1% of their annual grants, based upon weekly drawdowns.

However, the Phase II discussions revealed that university drawdowns are usually based upon a bifurcated accounting/banking system which clearly misses the "float" period between the time a check is written and the time funds exit the bank. Estimating this at 6 days, at least 6/365 or 1.644% of the federal grant funds are in grantees' banks on the average day, even if letter-of-credit drawdowns coincide perfectly with "disbursements" as defined by the universities. Therefore, we estimate, for:

Universities/Colleges:

$$\$1485 \text{ million} \times 1.644\% \times 5.54\% = \underline{\$1,352,502}$$

Annual Lost Federal Interest

In summary, the estimate of federal funds being lost in uncollected or unreported interest on federal OHDS and PHS grants funds is:

Phase I:	Nonprofits	\$4.25 million
Phase II:	Local Governments/School Districts/Hospitals	1.29 million
	Universities "float"	<u>1.35 million</u>
		<u>\$6.89 million</u>

* 5-1/4% interest rate compounded monthly.

This is a conservative estimate based upon FY 1984 grant totals of these two agencies. However, OIG inspection staff believe that individual and specific audits of grantees on the interest issue would reveal much larger average daily balances than those estimated in Phase II, and that some of the larger grantees would be found to be already earning interest via investment of the excess federal cash. Since this is not a new phenomenon, we would expect such audits to uncover multi-year failure to return interest owed to the federal government.

It should also be remembered that in 1986, bank deregulation may put banks into heavier competition on interest offered, so that rates higher than 5-1/4% may become commonplace. In fact, it is quite likely that some investments made from "floated" federal funds may already exceed that rate.

APPROACHES TO REFORM AND SAVINGS IMPLICATIONS

The Phase I report recommended that OMB Circular A-110 and HHS Administrative Regulation 45 CFR 74 be revised to require non-profit grantees to use interest-bearing accounts for federal funds, and that interest earned thereby be monitored and audited appropriately.

The Phase II study confirms the need for these changes, as well as their applicability to grantees like universities. Specifically, mandated use of interest-bearing accounts would make any interest earned on excess drawdown or "float" easily detectable and auditable, regardless of bifurcated accounting/banking systems. Since federal funds would be required to go into interest-bearing accounts, the federal claim to at least a portion of the interest accruing in such accounts would be evident, as would the federal expectation that interest be accounted for and returned. The interest audit trail would be established in the bank records. In fact, the simplest approach would probably be for these grantees to establish a separate "federal holding account" in which interest would be all federal.

This is not only possible, but is in fact already happening with some federal funds. Four institutions have current agreements with the U.S. Navy Office of the Comptroller that they will keep Navy funds in a segregated special account on which interest is earned and reported. The institutions are:

Harvard University
Duke University
North Carolina State University
Hudson Institute

These arrangements are by special contract provisions between the Navy Comptroller's Office and the institutions. The Navy office began this system out of dissatisfaction with letter-of-credit flexibility for grantees/contractors, which allowed early drawdown and inadequate performance controls, as well as lost interest. The Navy office pointed out to us, however, that it would be rather inefficient for each federal department dealing with a large university to negotiate a separate bank account for its funds; rather, a single federal account in the university's bank might make more sense.

For colleges and universities, the single federal holding account approach fits well with the "cognizant agency" audit approach established under OMB Circular A-88, in which one federal agency is responsible for overseeing the audit for all federal funding agencies.

In fact, since HHS is the "cognizant agency" under A-88 for over 98% of the colleges and universities in the country, it would be possible to do selected audits of interest earned in large universities on a multi-federal-agency basis, i.e., auditing interest earned on all federal funds. Any dollars recovered would revert directly to the Treasury as unappropriated funds (rather than to the individual federal programs). This approach was recommended by PCIE member (NASA-OIG) in response to the Phase I report.

If finally approved, the proposed revision to OMB Circular A-110 will require all grantees and contractors subject to this circular to deposit federal funds in interest-bearing accounts and to return any interest earned thereby to the federal government unless the total interest on all federal funds amounts to less than \$100 per year. This policy would apply to all non-governmental grantees,

including colleges and universities, hospitals and other nonprofit organizations. State and local government grantees are covered under OMB Circular A-102 and states (but not local government grantees) are exempted from returning interest by the Intergovernmental Cooperation Act.

The Phase I study found that only 4% of the grantees sampled were earning and returning bank interest on the federal grant funds, and that these were the smaller grantees receiving about .5% (one half of one percent) of the federal grant dollars. A sample less oriented toward the smaller grantees would most likely have shown the total interest returned to be insignificant.

In response to OMB Bulletin 85-18, federal agencies reported that in FY 1984 they awarded approximately \$102 billion in federal grants to the following types of organizations:

States	\$80,606,497,000
Local Governments	14,956,089,000
Other Grantees	7,092,000,000

Generally, OMB Circular A-110 covers the "Other Grantees" identified above. However, in cases where local governments pass through federal grants to nonprofit agencies directly, those nonprofit grantees are governed by A-110 as well. A conservative estimate is that between \$7 and \$8 billion in grant awards in FY 1984 were governed by A-110 policy.

If it is assumed that these federal funds and grantees followed the same pattern as that indicated in the HHS/OIG sample, then some 3.4% of these funds were in grantee bank accounts on the average day and would have earned interest at the annualized rate of 5.54% (5-1/4% compounded monthly), had the new A-110 policy been in effect in FY 1984.

Under the proposed rule, grantees earning total interest on federal funds under \$100 per year would not be required to return this interest. The HHS sample showed that this limit would normally exclude grantees whose entire federal grant was under \$60,000 for the year. However, only .68% (less than seven-tenths of one percent) of the grant funds in the sample went to such small grantees, so that the rest, or 99.32% of the grant funds would have been subject to the requirement to return interest earned.

Thus, our analysis indicates that the interest returned to the federal government in FY 1984, had the new policy been in effect, would have been between \$13 and \$15 million, as calculated below:

(High)	\$8 billion x 3.4% x 5.54% x 99.32% = \$14.96 million
(Low)	\$7 billion x 3.4% x 5.54% x 99.32% = \$13.10 million

Were this same rule extended to local government grantees by revision of OMB Circular A-102 as well as OMB Circular A-110, then the total amount of interest returned annually would be over \$41 million, as calculated below:

$(\$14.96 \text{ billion} + \$7.09 \text{ billion}) \times 3.4\% \times 5.54\% \times 99.32\% = \41.25 million.

OFFICE OF MANAGEMENT AND BUDGET**Proposed Revision to Circular A-110**

AGENCY: Financial Management Division, Office of Management and Budget.

ACTION: Proposed Revision to Circular A-110.

SUMMARY: This notice offers interested parties an opportunity to comment on a proposed revision to OMB Circular A-110, "Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations." The revision would require these recipients to hold Federal funds in accounts that pay interest.

FOR FURTHER INFORMATION CONTACT: Palmer A. Marcantonio, Financial Management Division (202) 395-3993.

Dated: October 18, 1985.

John J. Lordan,
Deputy Associate Director for Financial Management.

Office of Management and Budget

Circular A-110, "Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations"

AGENCY: Office of Management and Budget.

ACTION: Proposed revision to the grant payment policies of Circular A-110, "Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations."

SUMMARY: This notice offers interested parties an opportunity to comment on a proposed revision to OMB Circular A-110, "Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations." The revision would require these recipients to hold Federal funds in accounts that pay interest.

The revision is based on a recommendation by the Inspector General (IG), Department of Health and Human Services. The IG made an audit to determine what percentage of grantees were using interest bearing accounts for deposits of Federal funds. The IG reviewed about 4,000 nonprofit grantees of the Office of Human Development Services and the Public

Health Service. The review disclosed that 80 percent of the grantees did not earn interest on Federal funds kept in banks. 18 percent earned interest but did not report or return any of it to the Federal Government and only 4 percent earned and returned interest. From the limited test made, the IG estimated that the Federal Government lost about \$15 million in potential interest income.

OMB Circular A-110 provides that Federal cash made available to recipients of grants shall be timed to coincide with their cash needs. This proposed revision is not intended to change that policy by encouraging grantees to maintain unnecessary balances of Federal funds. The revision recognizes that all Federal cash will not always be disbursed immediately upon receipt. Therefore, it is proposed that when cash is available it should be deposited in interest bearing accounts.

It is proposed that the following paragraph 8 be added to Attachment 1, "Payment Requirements," of Circular A-110.

Recipients shall maintain Federal funds in interest bearing accounts. Interest earned on such accounts shall be remitted to the Federal agency that provided the funds. Where funds from several agencies are deposited in the same account, interest shall be remitted to the agencies on a pro rata basis. Interest amounting to less than \$100 a year on all Federal funds need not be remitted.

The Office of Management and Budget has, as yet, made no decision with respect to the proposed revision. All interested parties are encouraged to make their views known.

FOR FURTHER INFORMATION CONTACT: Palmer A. Marcantonio, Financial Management Division, Office of Management and Budget, Washington, D.C. 20503, (202) 395-3993.

Comments should be received within 60 days of this notice. All comments should be submitted in duplicates.

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