EARNING INTEREST ON FEDERAL GRANT FUNDS

National Program Inspection

Office of Analysis and Inspections
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MAJOR FINDINGS

- Of about 4,000 nonprofit grantees of the Office of Human Development Services (OHDS) and the Public Health Service (PHS) who were studied in this program inspection, 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 yer 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.

- Grantees who are funded via letter-of-credit keep a somewhat lower percentage of their grant dollars in the bank than do grantees funded via Treasury check disbursements. Even so, large daily balances remain in the bank accounts of both groups of grantees.

- Most grantees can easily obtain bank accounts paying at least 5-1/4% interest, and can avoid paying fees on such accounts. Virtually all can hold any fees to a level of 2% to 7% of the interest earned. To forego interest for "no fee" banking is a very poor exchange for most grantees.

- There are weaknesses in the Department's handling of grantee cash management reports and in the control of interest via the audit process.

RECOMMENDATIONS

1. The Department of Health and Human Services should amend 45 CFR 74 to require that all grantees not statutorily exempt should maintain federal funds in bank accounts which pay interest.

2. The Department of Health and Human Services should recommend again that the Office of Management and Budget revise Circular A-110 to mandate that all nonexempt grantees of the government use similar interest-bearing accounts.

3. Grants management and other federal program officials should enforce existing policies requiring grantees to report and return interest earned on federal funds and should actively encourage and monitor grantee use of interest-bearing accounts.

4. Contract auditors should be explicitly instructed to identify interest earned by grantees and the federal share thereof and to assure return of the federal share to the government per existing policy instructions.

BACKGROUND

The Department of Health and Human Services (HHS), Office of Inspector General (OIG), is already on record in support of strengthening requirements on the accrual and return of interest earned on federal grant funds.

In September 1982, Inspector General Richard P. Kusserow recommended to the HHS Assistant Secretary for Management and Budget (ASMB) and to the Office of Management and Budget (OMB) that OMB Circular A-110 and HHS regulations be changed to mandate maximum use of interest-bearing accounts by nonprofit grantees. The OIG estimated that $2.4 million would be saved annually by HHS grantees, basing this estimate solely on the 5-day float period between the time grantees write checks and the time the funds exit their bank accounts.[1]

On March 5, 1983, Inspector General Kusserow testified before the House Committee on the Budget that the Intergovernmental Cooperation Act (P.L. 90-577) should be changed to require state and local governments to return to the federal government interest earned on grant funds, estimating that $25.3 million annually could thereby be saved.

On July 22, 1983, the General Accounting Office (GAO) issued a report on 18 federal programs (6 in HHS), recommending clearer federal policy on and better reporting of grant-related income.[2] As recently as February 10, 1984, GAO reported that some HHS grantees are not reporting interest earned on grant funds and recommended improvements in disposition of grant-related income by HHS grantees.[3]

On May 8, 1985, the HHS Assistant Secretary for Management and Budget responded to the OIG report ACN 12-53004 on cash management of programs in selected states. The response agrees with the Inspector General's recommendation that the Joint State/Federal Cash Management Reform Task Force should initiate legislation to make states accountable for interest earned on excess federal funds.[4]

During two recent program inspections in the Head Start program, grantees complained to OIG staff that they "were required" to keep grant funds in non-interest-bearing accounts. In fact, 45 CFR 74 gives nonprofit grantees the option to earn interest, so long as they report it and return it to HHS.

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[1] Memos dated 9/20/82 to ASMB Sopper, OMB Deputy Associate Director Kleinberg, OMB Deputy Director Wright.

[2] Improved Standards Needed for Managing and Reporting Income Generated Under Federal Assistance Programs. GAO/66D-83-55.

[3] Dept. of HHS Should Improve Policies and Practices on Grant-Related Income. GAO/66D-84-20.

[4] Memo dated 5/8/85, ASMB O'Shaughnessy to IG Kusserow.

As of August 1984, when this study was initiated, no change in either OMB Circular A-110 or 45 CFR 74 was planned with respect to interest earned by nonprofit grantees. HHS grants management staff estimated that perhaps 90% of such grantees were not earning interest and that there were no available data on the actual amount of federal funds being carried in bank accounts by grantees.

HHS generally has taken the approach that encouraging grantees to draw down funds only as needed, rather than prematurely (in accordance with OMB Circular A-110, Attachment F, Item 2.e.), is the best way to assure appropriate use of federal funds. In fact, some grants management staff believe that encouragement for grantees to earn (and return) interest might undercut efforts to make drawdowns timely. As a result, grantees are not encouraged to collect interest on federal grant funds.

Finally, although some grantees were reporting interest earned in their quarterly cash management reports, as required, and were returning interest to grants management offices annually or more frequently, no collected information about interest earned or returned was available in HHS. Some 22 Public Health Service (PHS) and Office of Human Development Services (OHDS) grants offices (2 per region and 2 in headquarters), as well as the Rockville Payment Management Center, are involved in the collection, management, reporting, and accounting for interest earned by grantees.

This study was initiated, therefore, to obtain valid information about the actual amount of federal grant funds kept in bank accounts (regardless of the drawdown frequency), the portion earning interest, and the interest reported and returned.

Unless otherwise exempt, all PHS and OHDS grantees are obligated under OMB Circular A-110, 45 CFR 74 and departmental grants administration manuals to report nonexempt interest earned. This study addresses only the nonprofit portion of the universe of grantees in PHS and OHDS. State entities were excluded because they are not required to return interest to the federal government. Local governments, school districts, local and private colleges, hospitals and Indian tribes were excluded from the sample because, even though usually required to return interest, their banking and accounting systems are often too large or complex to be reviewed by the mail survey approach used in this study. More than 5,000 nonprofit grants remained, representing about $1.6 billion. (See Methodology and Sample, below, for further details on sample.)

FEDERAL SHARE OF INTEREST AND SAMPLE PERIOD

Existing regulations and manuals do not specify how the federal share of interest should be computed by grantees who elect to commingle federal grant funds with other funds in the same bank account. At the outset of this study, no collected information was available in HHS to indicate how many grantees do, in fact, commingle federal and other funds in bank accounts and how many maintain "purely federal" accounts.

This study was not designed to audit any specific grantee's liabilities for interest due to the government, or to review the individual accounting systems or records by which grantees may document expenditures assigned to the federal grants. It is assumed that some grantees with commingled bank accounts do maintain records adequate to compute the federal share of interest in those accounts.

For purposes of this study, we assumed that the federal grant funds in commingled bank accounts were being expended at the same rate as the nonfederal funds. Thus, by computing the average daily balance in the account, we had a base against which to compute a federal share, or a "federal grant fund average daily balance."

We computed this share based upon the total volume of federal grant dollars in the account and/or deposited to the account at any time during the period reviewed ("federal volume") compared to the total of all dollars in and/or deposited to the account during that period.

$$\text{Federal share} = \frac{\text{Federal volume}}{\text{Total volume}}$$

We obtained the "federal volume" information from the cash management reports (Standard Form 272) submitted quarterly by the grantees, in which the grantees state the amount of federal cash on hand as of the first day of the quarter, as well as the total of grant funds received during the quarter. We obtained the total volume information directly from the bank statements forwarded by the grantees at our request.

By requesting five consecutive months of bank statements, we were generally able to match three months of bank statements with a 272 quarterly report (which does not always follow calendar quarters). In a few cases, however, it was necessary to make quarterly projections from fewer than three full months.

This approach was not developed to provide an exact auditable reading on federal funds in individual accounts. Rather, the approach was designed to give a cumulative reading--for policy analysis purposes--of the federal funds being held in bank accounts, without burdening grantees with detailed studies of their accounts and books.

GENERAL FINDINGS

Ninety-four percent of the grantees have chosen to "commingle" federal HHS funds with other funds in common bank accounts. Out of 432 grantees with 585 grants, only 26 bank accounts appeared to be "purely federal," i.e., in which the amounts did not exceed the federal funds disbursed for the period studied.

The grantees studied ranged from "large" to "small," from one receiving $19 million per year (in 11 grants) to several receiving under $5,000/year. Fifty-seven received over $1 million, and 44 received under $50,000 for the year. The average grantee sampled received $585,000 for the year.

The grantees' average daily bank balances ranged from $1.5 million to $345. Three average daily balances were greater than $1 million, and 57 were over $100,000. The mean average daily bank balance was $65,831.

The "federal average daily balance" of grantees (federal share x average daily bank balance) ranged from $459,000 to $0. Seven grantees had federal average daily balances over $100,000, and 34 over $50,000. The mean federal average daily balance was $20,129. This indicates that about 31% of the money in grantee bank accounts on the average day is federal grant money. (See pp. 3-5 for explanation of federal share computations.) At an annual interest rate of 5-1/4%, compounded monthly (yield = 5.54%) the "average grantee" sampled could earn annual interest of $3,647, of which the federal portion would be $1,117.

THE "TYPICAL" GRANTEE SAMPLED

- FY 1984 Grant = $585,000
- Draws funds via letter-of-credit
- Commingles federal and nonfederal money in no-interest bank account
- Has average daily bank balance of $65,831...
- Of which $20,129 is federal
- Pays no bank fees
- Foregoes potential annual bank interest of $3,647...
- Of which $1,117 would be federal funds
- Reports/returns no interest to HHS
- Has no audit findings regarding interest

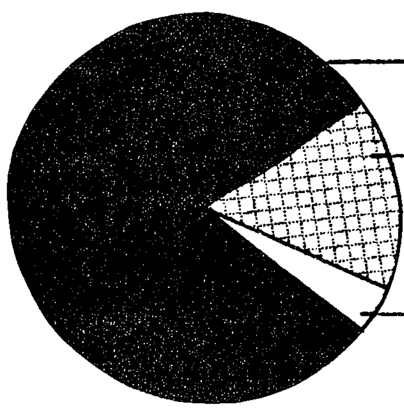
Of the 432 grantees whose bank statements were examined, only 87 showed receipt of any interest. In other words, 345 or 80% of the grantees apparently retain their federal grant funds (and usually other funds as well) in non-interest-bearing accounts. These non-interest-bearing accounts handle 85% of the annual grant dollars let and have a combined average daily balance of over $20 million, of which over $7 million is the federal share. In short, these 345 grantees are apparently foregoing (not earning) about $387,800 in yearly interest on federal grant funds in their accounts, plus an additional $1,108,000 per year interest on nonfederal funds held in these accounts.

The 87 grantees earning interest do so at different rates, varying from 1% to 12% of their average daily balance. The cumulative amount of interest actually earned by these grantees was, not surprisingly, 5.4% of their combined average daily balance. The federal share of the funds in these interest bearing accounts was only 20% (compared to the 31% share in all accounts). Even so, these 87 grantees earned 1984 interest on federal funds, by our computation, of about $90,000, in addition to interest on nonfederal funds of $363,769.

Only 9 grantees whose bank statements showed interest reported interest earned in their quarterly cash management reports. Although the other 78 did not report any interest, their cash reports indicated the presence of federal funds in their accounts. Another 9 grantees whose bank statements showed interest but whose cash report did not, nonetheless had returned some interest money to their grants management office during FY 1984; 5 of these 9 had apparently done so in response to an audit.[5]

In summary, therefore, out of 432 grantees sampled, 345 or 80% were not receiving interest, another 69 or 16% were receiving interest but not reporting or returning any of it to HHS, and 18 or 4% had reported or returned interest during FY 1984. With 96% of the grantees sampled not returning interest, the annualized interest lost to HHS (at 5-1/4% compounded monthly) totals $462,474.

GRANTEES RECEIVING AND/OR RETURNING INTEREST



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5 Note: The FY 1984 audit closure was not due for every grantee sampled in this study at report time. Therefore, more grantees who did not report interest quarterly may return interest directly or as a result of audit.

However, of the 87 grantees whose bank statements showed interest being earned, only 31 had any completed audit on file in the OIG during the period 1981 to present. Of these 31 audits, only 14 audits even mentioned the word "interest," and then usually in tables showing revenue sources of the grantee; only 5 audits identified interest due for return to the federal government.

Although not definitive because of the timeframe, our findings give no reason to believe that the audit process is effectively policing interest earned on federal grant funds.

PROJECTED FEDERAL SAVINGS

The Inspector General is already on record recommending that all grantees, including state governments, should be required to return interest earned on HHS grant funds. This report repeats that recommendation and provides a firmer basis for projecting the fiscal impacts of this recommended policy change.

The specific universe from which the study sample was drawn was a group of 5,377 grants received by 3,970 nonprofit grantees during FY 1984. The value of these grants was $1,637 million.

Since 96% of these were found to be paying no interest on a mean federal average daily bank balance of $20,129, we calculate that the entire group of nonprofit grantees represented by this sample are failing to earn or return some $4,250,000 per year to the federal government.[6]

In addition to the nonprofit grants actually sampled, another group of 13,645 grants received by 8,652 grantees should be yielding bank interest. However, these grants, totaling $2,168 million, are received by grantees whose banking systems we judged too large or complex for the mail survey approach of this study. If (1) it is assumed that their banking/interest patterns are similar to those of the nonprofit grantees sampled or if (2) subsequent study confirms this similarity, it is estimated that an additional $8,918,000 per year is being lost in unearned or unreturned interest on these federal grants.

The total federal loss would be about $13 million per year for all OHDS and PHS grants, still excluding interest lost on grants to states, state agencies, state universities, and state hospitals. In addition, grantees are losing some $25 million per year interest on nonfederal funds in their accounts.

INTEREST RATES AND SERVICE CHARGES

The 87 sample grantees earning interest showed an average annualized interest rate of 5.4%. Individually, the annualized interest rates ranged from 1% to 12%.

In order to determine more precisely the interest rates available to grantees, we conducted a "mini-study" of 50 financial institutions in 35 states at which 50 grantees currently are banking. While only 18% of the grantees in the mini-sample had their funds in interest-bearing accounts, 92% of the banks offer at least one interest-bearing checking account option to nonprofit organizations.

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6 Precision +/- 13% at the 90% confidence level or +/- 15% at the 95% confidence level. This range is fairly wide for the sample size; however, the wide variation in individual grantee interest accounts for the spread. To have attained a precision of +/- 5% at the 95% confidence level would have required a sample size of 2,131 grantees.

Nearly every bank contacted offers what is commonly called a NOW account, which pays a fixed rate of 5-1/4% interest (an effective yield of 5.48% to 5.67% depending upon how frequently the interest is compounded.) With few exceptions, there are unlimited check-writing privileges and no service charges as long as certain minimum daily or monthly balances are maintained. Interest continues to accrue regardless of whether minimum balances are maintained. Half the banks in the sample also offer a second, higher-yielding checking account, commonly called Super-NOW accounts.

An examination of 125 months of grantee bank statements (1 to 3 months per grantee) showed that most of the time grantees would have met the minimum requirements for a NOW account at the institutions where they currently bank. This means that most of the 37 grantees not earning interest could have been accruing interest at a minimum rate of 5-1/4% with no service fees. Several of the grantees who dropped below their bank minimums would still have earned some interest because high balances during part of the month would have more than offset the assessed fees. Many of the grantees in the mini-sample also would have qualified for the higher rates offered in Super-NOW accounts.

Although federal regulations currently limit financial institutions from offering more than 5-1/4% on their fixed-rate NOW accounts, this limitation will be lifted in 1986 as part of the move toward deregulating the banking industry. Given the competition this action is likely to foster, interest rates for general purpose checking accounts are expected to be higher in the future.

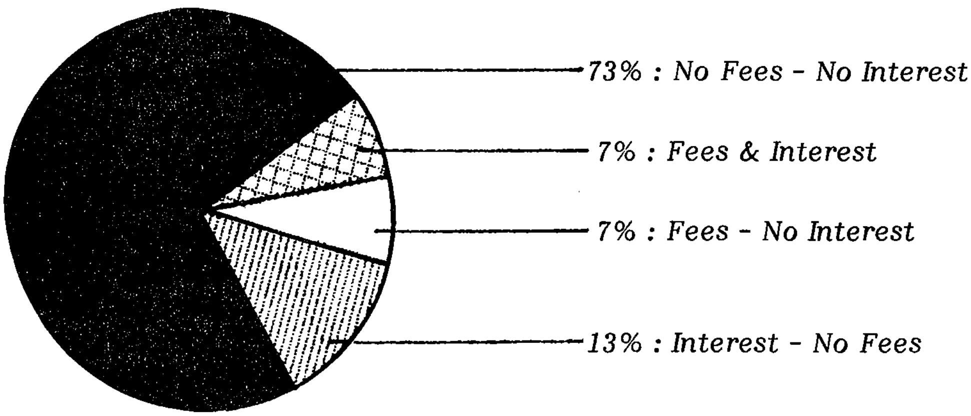
We conclude, therefore, that all grantees should be able to locate interest-bearing accounts (almost all at the same banks now used), yielding at least 5.54% annualized interest (5-1/4% compounded monthly). <u>After deregulation in 1986, even higher interest rates will be available.</u>

A common misperception among grantees and grants officers is that it is a "fair exchange" to receive no interest from the bank in return for "no fee" service. Most grantees are, indeed, receiving "no fee" service.

Only 59 of 432 grantees, or 14%, paid any bank fees in the months sampled. Thirty of these 59 received no interest but paid fees averaging about $168 per year, or $14 per month. The other 29 grantees paid fees <u>and</u> received interest. Their fees averaged about $225 per year, or $19 per month, ranging from .2% to 44% of the amount of interest they earned in the same period. The cumulative fees paid by these grantees amounted to 6.7% of the interest they earned.

Considering all the 59 grantees who paid fees, the fees averaged $196 per year, or $16 per month. However, it must be remembered that 58 of the 87 grantees who <u>earned</u> interest paid <u>no fees</u>. The total fees paid by the 87 interest-earning grantees amounted to only 2.6% of the interest earned.

GRANTEES PAYING FEES AND/OR RECEIVING INTEREST



Coupled with the finding that grantees actually avoided going under the minimum balance requirements of their own banks most of the time, these findings suggest that most grantees can avoid paying fees altogether even while earning interest, and that virtually all who do incur fees can hold them to a level of 2% to 7% of the amount of interest earned. After paying such fees, the "average" grantee would still "clear" over $1,000 per year in net interest on the federal funds. We conclude that foregoing interest in return for "no fee" service is certainly not a fair exchange for the average grantee.

ADDITIONAL FINDINGS

The following table illustrates the general similarity--and a few variations--between the 227 OHDS grantees and the 205 PHS grantees in our final sample:

	OHDS	PHS
% with federal-only accounts	5%	7%
% on letter of credit	23%	100%
Average grant size	$565,927	$606,508
Mean average daily bank balance	$ 65,652	$ 66,029
Mean "federal" average daily bank balance	$ 21,001	$ 19,162
Federal share of bank balance	32%	29%
% of grantees earning interest	16%	25%
% of grantees reporting/returning interest	5%	3%

So far as federal policy implications are concerned, we conclude that OHDS and PHS grantees are not substantially different with respect to their interest-earning or reporting practices.

There is considerable belief in grants management circles that the letter-of-credit disbursement system is more effective in preventing federal funds from lying dormant in banks than the alternative Treasury check disbursement system. This study gives one reading on this issue. For our sample we asked "What portion of the annual, federal grant dollars were lying fallow in the grantee's bank on the average day (federal average daily balance/annual grant dollars)?"

"Fallow Percent" - OHDS/PHS and
Letter-of-Credit/Treasury Check

	OHDS	PHS	COMBINED
Letter-of-Credit	2.11%	3.16%	2.98%
Treasury Check	4.09%	N/A	4.09%
Combined	3.68%	3.16%	3.42%

These findings are especially meaningful when compared to predicted or expected "fallow percent" figures. Assuming funds are spent regularly in the same amount each day of the week or month, one can calculate an expected average daily balance and "fallow percent" for each drawdown interval.

For example, a $100 grant disbursed <u>monthly</u> will put $100/12 or $8.33 per month in the bank; spending 1/30 of this daily throughout the month leaves an average daily balance in the bank of about half the drawdown, or $4.16 (about 4% of the grant). Calculating similar "fallow percents" for drawdowns occurring every 1, 2 or 3 weeks gives the following table:

Drawdown Frequency	Expected "Fallow Percent"
Monthly	4%
Every 3 weeks	3%
Every 2 weeks	2%
Every week	1%

By this measure, our sample shows OHDS Treasury-check grantees with bank accounts about as expected for monthly drawdowns, PHS letter-of-credit grants about as expected for drawdowns every 3 weeks, and OHDS letter-of-credit grantees at about the two-week drawdown level. Overall, the letter-of-credit system appears to be shaving about a week's cash float off the monthly Treasury check disbursement pattern.

Perhaps the more significant finding is that, despite drawdown practices yielding fairly predictable bank balances, a large amount of interest is being lost to the federal government. We believe that additional drawdown improvement may be possible, but is not the whole answer to this federal loss.

METHODOLOGY AND SAMPLE

This program inspection was designed during August and September 1984, beginning with preliminary discussions with HHS grants management officials in headquarters and several regions. States and their "instrumentalities" are exempt under the Intergovernmental Cooperation Act, as are Indian tribes under the Indian Self-Determination Act in the case of certain non-HHS funds. Assuming that state colleges, universities, hospitals and other agencies are exempt, all other HHS grantees are required to report and return interest earned. This includes nonprofit organizations, large and small businesses, Indian tribes, local governments, school districts[7], local or community colleges, private colleges and universities, and local and private hospitals.[8] The following table summarizes PHS and OHDS fiscal year 1984 grants:

FY 1984 GRANTS

	OHDS	PHS	TOTAL
States			
# Grants[9]	597	15,370	15,967
$ Awarded	$112.7 million	$2,675.2 million	$2,787.9 million
NonProfits			
# Grants	1,828	3,549	5,377
$ Awarded	$806.8 million	$830.6 million	$1,637.4 million
Other Grantees			
# Grants	711	12,934	13,645
$ Awarded	$286.9 million	$1,881.4 million	$2,168.3 million

From FY 1984 lists of OHDS and PHS grants, we excluded all state or local government agencies, school districts, colleges or universities and Indian tribes. Therefore, from the lists of 5,377 grants to nonprofits totaling $1,637,428,175, we randomly selected an initial 305 OHDS and 301 PHS grants which, after adjustments for nonactive status and other factors, yielded a final sample of 585 grants totaling $252,799,472. This sample comprises 1.7% of all FY 1984 OHDS and PHS grants and 3.8% of all grant dollars awarded (excluding Title XX block grants). However, the sample comprises about 3% of those grants to entities which are required to return interest, and 7% of their award dollars. After drawing this random sample, we then requested verification of the grant amounts, addresses and current status from the appropriate grants management offices in HHS.

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7 The HHS Departmental Grants Appeals Board recently (8/31/83) decided against an appeal by the Los Angeles County Superintendent of Schools who argued that the school district is a state "instrumentality" and thereby exempt.

8 HHS General Counsel opinion (June 1985) confirmed that these entities are ordinarily not exempt; under certain circumstances of state law, however, it is possible that some grantees may be "state instrumentalities."

9 Includes health block grants; excludes OHDS Title XX block grants.

During September 1984, pretest letters were sent to 10 OHDS and 10 PHS grantees in the states of Washington and Pennsylvania, all of whom responded promptly with the information requested. The request letter was then mailed between October 22 and November 8 to an additional 549 grantees. (The total number of grantees is smaller than 606 because 37 of the grants sampled represented a second or third grant to the same grantee.) In all, 569 grantees were contacted.

Initial responses showed that some of the sampled grants were prior-year grants being carried on the "active" list for close-out purposes. Other grants were so new that actual funding or drawdown had not yet occurred. A few grants were in payment or award embroglios affecting cash flow.[10] In other cases, the grantees turned out to be in categories intended to be excluded from the sample (e.g., local government agencies not originally recognized as such). In each case we sought to retain sampled grants representing active nonprofit FY 1984 grants, and to drop the others from the sample. In all, 95 grantees were dropped at this stage.

In addition to contacts with the 95 "dropped" grantees, written responses were received from 421 grantees in answer to the first request letter. A four-month hiatus in data gathering occurred as a result of an OMB reversal of the ASMB position on Paperwork Reduction Act clearance. After the OMB clearance was given, a follow-up request letter was sent, which resulted in responses from the remaining 53 grantees during March 1985.

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10 Example: One grantee had been awarded a nurse anesthetist training grant in June 1984, to be used for scholarships during the school year beginning in September. When the funds did not arrive in the fall, an official from the organization made a number of telephone inquiries of the HHS Payment Center before learning that a check had been issued, belatedly, on November 29. When several more weeks passed and the check didn't arrive, the official made additional telephone inquiries, and was finally advised on January 15 to make a formal notification of a lost check. The Payment Center said they would then begin tracing the check after a waiting period of eight weeks. This means that the school would have received the grant, at the very earliest, more than nine months after the grant award had been made.

OIG calls to the PHS grants management office revealed that they were unaware in February 1985 that their grantee had not received its money. When the grants management office became involved, as a result of the OIG inquiry, they were advised by the Payment Center that the check had been lost and would be reissued. Prior to our inquiry, the grants management office was under the impression that the grantee had made no efforts to obtain their funds. Had the problem not been resolved prior to June, the end of the grant year, the grantee would have lost the grant money altogether. As it was, all the students who had been awarded scholarships under the grant lost their funds and some had left school.

Meanwhile, we gathered quarterly cash reports for each grantee for the same time period as the requested bank statements. To obtain these without burdening the grantees, we requested copies from the HHS regional and central grants management offices (for grantees paid via Treasury check), and manually pulled records at the HHS Payment Management System Center (PMS) in Rockville, Maryland (for the grantees paid via letter of credit).[11] Despite major efforts on the part of OIG, PMS and agency grants officials, cash management reports from 42 of the grantees who responded to our request letter could not be located in time for this report.[12] In all, some 175 cash management reports were located for Treasury-check grantees, and 257 reports for letter-of-credit grantees.

In the case of letter-of-credit grantees who receive more than one grant, PMS cash management reports do not break out cash flow on each individual grant. This necessitated the expansion of the number of grants analyzed, so that cash flow was eventually computed on 585 individual grants going to 432 grantees. Since most grantees commingle all HHS funds in the same bank accounts, the effect of this sample expansion was to obtain a broader reading of the federal grant funds in these accounts. We judged this approach more accurate than any attempt to artificially pro-rate combined cash on hand reports to individual grants.

SUMMARY OF SAMPLE

	OHDS	PHS	TOTAL
Grants Originally Sampled	305	301	606
Grantees Originally Sampled	298	271	569
Pretest Grantees Contacted	10	10	20
Other Grantees Contacted	288	261	549
Total Grantees Contacted	298	271	569
Dropped After Contact	(57)	(38)	(95)
Responding to First Request	219	202	421
Responding to Second Request	22	31	53
Total Grantees Responding	241	233	474
Unlocated Cash Reports	(14)	(28)	(42)
Final Sample (Grantee + Cash Report)	227	205	432
Final Sample (Grants + Cash Report)	254	331	585

11 Although PMS is a largely automated system, information on federal cash on hand at the beginning of each quarter, as reported by each grantee, is not entered into the automated data system. We were told that there are plans to upgrade this system, pending adequate resources.

12 In some instances, it appears that grantees may not have been required to file SF-272s. In other instances where grants are administered by regional offices but payments are issued from the Rockville Payment Center, the regional grants management officers told us the SF-272s were in the Payment Center and the Payment Center indicated these documents were the responsibility of the regions. In a number of instances there was no explanation as to why the SF-272s were not available.

Three additional "mini-samples" were analyzed during the study. For each of the grantees in which either the bank statements or the cash reports indicated receipt of bank interest, (a) we reviewed completed audit reports, when available, on file in the OIG Office of Audit and (b) we queried each grants office as to whether that grantee had returned any interest to the government during FY 1984. Finally, (c) we called 50 grantees' banks (selected randomly) and obtained information about the bank interest available to nonprofit organizations on checking accounts, bank fees, and minimum balance requirements.

Since the primary goal of the study was to ascertain the amount of federal grant funds which were earning or might have been earning bank interest, it was necessary to calculate an average daily bank balance for each grantee and determine what portion of it constituted federal funds. We developed a microcomputer program in BASIC to assist in calculating average daily balances for grantees, most of whose bank statements did not provide this calculation. We employed a microcomputer software package called PC-File III to organize study data and an OIG-approved microcomputer program, known as "VARIAB" for analysis of statistical precision. All computer work was done within OIG using an IBM-PC(XT).