



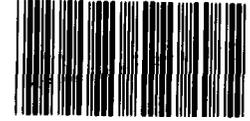
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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HUMAN RESOURCES
DIVISION

DECEMBER 13, 1983

B-213628



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The Honorable Margaret M. Heckler
The Secretary of Health and Human Services

Dear Madam Secretary:

Subject: Millions of Unspent NIH Grant Funds
Available for Use (GAO/HRD-84-24)

During our review of how indirect cost rates are established for National Institutes of Health (NIH) grantees, we identified an opportunity for NIH to realize a one-time funding windfall of from \$41 million to \$143 million by offsetting grantees' estimated year-end unspent grant fund balances against the next period's grant awards. Generally, NIH has permitted grantees to carry over in their grant accounts, but not to expend, any unspent grant funds. As a result, such funds are available, but remain unused for an entire year before being offset against future grant funding.

HHS regulations (45 C.F.R. 74.108) require grantees to either (1) report promptly when a grant is expected to exceed needs by more than \$5,000 or 5 percent of the grant, whichever is greater, or (2) include an estimate of expected unused funds in their applications for the next period's funding. These applications are due about 3 months before the end of the budget period. In addition, NIH grantees are required to submit a report of expenditures showing unused funds within 3 months after the end of the grant budget year.

NIH policy provides that when an estimated unspent grant balance of \$2,500 or more is reported, grant awarding offices can determine whether and to what extent unspent grant funds should be offset against the next period's grant award. However, NIH grant awarding offices generally do not offset any of the unspent funds against the next period's grant awards. According to an NIH official, this practice is followed to ensure that grantees have sufficient funds in case their estimates of unspent funds are overstated. Further, when a grant's actual unspent balance is reported, the NIH grant awarding office generally instructs grantees to carry over, but not expend, the unspent fund balance for the remainder of the budget year.

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To determine the extent to which unspent grant funds were available but were not offset against the next period's grant awards, we reviewed a random sample of 260 grant awards made in fiscal year 1981 and projected the results to the universe of NIH's grant awards (18,466 grant awards totaling \$2.2 billion) in fiscal year 1981. We estimate that (1) about 4,900 grant awards, or 27 percent of NIH's fiscal year 1981 total grant awards, had unspent fund balances in excess of \$2,500, (2) these unspent balances totaled between \$41 million and \$143 million, and (3) between \$23 million and \$126 million of the unspent grant fund balances involved individual fund balances of \$10,000 or more. Our projections were made on the basis of a 95-percent confidence level.

The estimated funding windfall we identified excludes the \$70 million that generally had remained unused in grant accounts since the end of fiscal year 1979 and that NIH grant awarding offices did not offset against grantees' grant awards until fiscal year 1981.

In June 1983, we discussed with NIH officials the need for more timely offsets of unspent grant funds, particularly with a view to funding additional research. During fiscal year 1981, NIH approved 13,024 research project applications but was able to fund only 5,109. The remaining 7,915 approved applications totaling \$696 million were not funded. NIH officials indicated that the policy and practices employed in fiscal year 1981 had not changed and agreed that better management of unspent grant funds was needed. They indicated that the funding windfall we identified could support additional research projects. However, they expressed reservations that the entire amount could be so used because of the uncertainty over whether funding would be available in subsequent periods to assure continued support of the new projects.

CONCLUSIONS AND RECOMMENDATION
TO THE SECRETARY OF HHS

We believe that NIH's policy of allowing grant awarding offices to determine whether and to what extent continuing grants' estimated unspent funds should be offset against the next period's grant award should be revised, because it results in millions of dollars of unspent grant funds not being effectively used.

Accordingly, we recommend that you require the Director, NIH, to adopt a policy that requires NIH's grant awarding offices to offset unspent grant funds in excess of \$2,500 against the next period's grant award.

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As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the Senate and House Committees on Appropriations, the Senate Committee on Labor and Human Resources, and the House Committee on Energy and Commerce; the Director, Office of Management and Budget; and the Director, NIH. Also, copies of the report will be provided to others upon request.

Sincerely yours,



Richard L. Fogel
Director