



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

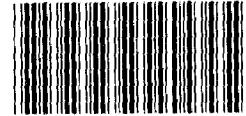
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March 18, 1980

INTERNATIONAL DIVISION

Dr. Jack W. Millar, President  
Gorgas Memorial Institute of Tropical  
and Preventive Medicine, Inc.  
2007 I Street, N.W.  
Washington, D.C. 20006

*CVG 20778*



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Dear Dr. Millar:

As you know, we recently completed our [examination of the financial statements of Gorgas Memorial Institute] of Tropical and Preventive Medicine, Inc., for the fiscal year ended September 30, 1979. This is a summary of observations made during our examination which warrant management attention.

EARNINGS FROM GRANT FUNDS  
MAY NOT BE RETAINED

The Institute's appropriation legally constitutes a grant. The Comptroller General of the United States has held in 40 Comp. Gen. 81 (1960) and Government regulations (OMB Circular A-110, 41 Fed. Reg. 32017 (1976) require that interest earned on grant funds belongs to the United States rather than to the grantee. In recent years, the Institute has violated those requirements by retaining interest income earned on grant funds provided by the Department of Health, Education and Welfare and transferring those earnings to the Institute's Endowment Fund. During fiscal year 1979, those earnings exceeded \$8,000.

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We recommend that the Institute discontinue that practice and return any future earnings realized from grant funds to HEW. This matter is discussed more fully in the enclosure.

GORGAS MEMORIAL LABORATORY

At the Laboratory, we noted that (1) the distribution of payroll costs was based on predetermined estimates and (2) documentation was lacking on some procurement actions.

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*Get job assignment code*

*CVG 20778*

*Group III  
Letter Report*

Method for payroll distribution  
needs change

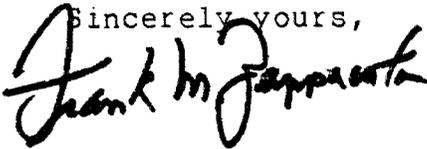
The payroll costs for Laboratory employees working on contracts and grants were distributed on the basis of predetermined estimates rather than on actual time worked. As a result, costs charged to contracts, grants, and core operations may be distorted. We believe that time distribution sheets should be prepared for each employee showing the actual time worked. These time sheets should be approved by supervisory personnel and submitted monthly to the accounting section.

The Director indicated that the amount of time charged to contracts and grants was probably less than the actual time worked. However, he agreed to change the present practice and to require the preparation of time distribution sheets.

Need for documentation  
in support of procurement

The accounting files lacked full support for payment of certain invoices. For example, a Wang word-processing machine was procured on a sole-source basis for about \$14,000. The files did not include any purchase order nor any written justification why the purchase was made on a sole-source basis. The Director said that he was personally involved in this procurement and had determined that the Wang machine was the most cost-effective machine available. However, he agreed that additional documentation should have been included in the files. We believe that purchase orders should be prepared for all substantive purchases, and that there should be written justifications for sole-source procurements.

We wish to acknowledge the courtesy and assistance extended to us during our examination. We would appreciate any comments you may have on the matters discussed in this letter.

Sincerely yours,  


Frank M. Zappacosta  
Senior Group Director

Enclosure

FISCAL PRACTICES OF THE GORGAS  
MEMORIAL INSTITUTE RELATING TO ITS  
FEDERAL APPROPRIATION

BACKGROUND

The Gorgas Memorial Institute of Tropical and Preventive Medicine, Inc. (Institute), is a private, nonstock, nonprofit Delaware corporation having as its stated purpose:

" \* \* \* the dissemination and popularization of health and sanitary knowledge in the United States and the carrying on of research work in the Tropics touching the cause and prevention of disease."  
H.R. Rept. No. 706, 70th Cong., 1st Sess.  
6.

In 1928, Congress authorized annual appropriations to the Institute for the operation and maintenance of a research laboratory in or adjacent to the Canal Zone, to be known as the Gorgas Memorial Laboratory (Laboratory). See Act of May 7, 1928, ch. 505, 45 Stat. 491, codified as amended at 22 U.S.C. §278 (1976). This legislation was enacted pursuant to a recognized need for a research facility dedicated to the study, investigation and prevention of tropical and other diseases. H.R. Rep. No. 706, 70th Cong., 1st Sess. 3. The statute requires the Institute to make a full annual report to Congress on the operation and work of the Laboratory, and the General Accounting Office is authorized to conduct audits of its books and accounts. 22 U.S.C. §§278a, 278b.

The Laboratory's budget request, is incorporated in the Department of State budget prior to 1955, is currently included in HEW's budget and submitted to Congress as part of the National Institutes of Health estimate for the Fogarty International Center for Advanced Study in the Health Sciences (Fogarty Center). S. Rep. No. 729, 86th Cong., 1st Sess. 2. Of the Fogarty Center's \$8,989,000 appropriation for fiscal year 1979, \$1,700,000 was made available to the Institute for the operation and maintenance of the Laboratory. See Pub. L. No. 95-480, 92 Stat. 1567, 1573. The Institute's present annual authorization under 22 U.S.C. §278, as amended, is \$2 million. Although this appropriation represents the primary source of funding for Laboratory activities, approximately 34 percent of the Laboratory's 1978 revenues were derived from separate project grants, contracts and other sources.

Appropriated funds are paid to the Institute by the Fogarty Center in quarterly increments with apparently no

requirement that the Institute apply for the funds in anticipation of need or that the Institute incur reimburseable expenses prior to receipt of the funds. Upon receipt, the funds are deposited in an interest-bearing operations account until needed. Interest earned on this account is placed in the Institute's endowment fund, the income from which is used to defray the costs of symposia, seminars and other miscellaneous activities of the Institute.

QUESTION 1: Can interest earned by the Institute on appropriated funds be retained by the Institute?

ANSWER: No.

ANALYSIS: Since 1928, the legal character of the Institute's appropriation has been scrutinized only once, in a 1964 opinion of the Comptroller General, wherein our Office addressed the issue in the context of the applicability of the Federal dual employment statute to an employee of the Institute. B-153417, February 17, 1964. Observing that --

"Federal funds granted to a private institution when paid over to and expended by the institution are not subject generally to Federal laws applicable to the expenditure of appropriated funds,\* \* \*"

The opinion concluded that the Institute is outside the purview of the dual employment statute since its annual appropriation amounts to a Federal grant.

The proposition that the Institute's appropriation legally constitutes a grant finds modern support in the provisions of the Federal Grant and Cooperative Agreement Act of 1977, 41 U.S.C. §501 et seq. Specifically, 41 U.S.C. §504 states that Federal assistance should be in the form of a grant when:

"(1) the principal purpose of the relationship is the transfer of money, property, services, or anything of value to the State or local government or other recipient in order to accomplish a public purpose of support or stimulation authorized by Federal statute \* \* \*; and

"(2) no substantial involvement is anticipated between the executive agency, acting for the Federal Government, and the state

or local government or other recipient during performance of the contemplated activity."

This view reflects the Act's emphasis on substance rather than form in classifying assistance relationships and is also consistent with the Fogarty Center's own classification of the payment to the Institute as a special project grant expense for accounting purposes.

Comptroller General decisions have generally held that, except as otherwise provided by law, interest earned by public or private grantees on funds granted by the United States belongs to the United States rather than to the grantee. All such interest is required to be accounted for as funds of the United States. See in this regard B-149441, July 13, 1976 and 40 Comp. Gen. 81 (1960); see also OMB Circular A-110, 41 Fed. Reg. 32017 (1976). The rationale underlying this principle is that grant funds may be used only for grant purposes, that investment is not a purpose of most grants and, thus, that the investment proceeds should accrue to the United States. B-175155, June 11, 1975. On the face of the matter, then, it appears that the earned interest would be repayable under the general rule requiring repayment in the absence of exempting legislation. See, for example, 42 U.S.C. §4213 (1976).

While the Institute is not a typical grantee, the general rule against retaining interest income appears applicable here. As noted previously, appropriations under 22 U.S.C. §278 provide a specific amount each year for operation and maintenance of the Gorgas Memorial Laboratory. Presumably the amount appropriated represents a congressional judgment as to the appropriate level of support for any given year. For example, the proposed fiscal year 1980 appropriation of \$1.7 million is described in the House hearings as a level of "core support" which amounts to 75 percent of the Institute's total budget. Hearings Before a Subcommittee of the House Appropriations Committee on Departments of Labor and Health, Education, and Welfare Appropriations For 1980 (Part 4, National Institute of Health), 96th Cong., 1 Sess. at 1550-1551, 1571. There is no evidence of disclosure to the Congress that additional interest income generated by "core support" appropriations has been retained.

In this context, retention of the interest income tends to augment the basic appropriations and thus undercut the budgetary judgments reflected in the appropriation amounts. Therefore, the Institute should not keep any interest income

realized from the operation and maintenance appropriations. \*/  
The Institute should cease its practice of retaining interest  
income unless or until this practice is approved by Congress  
but need not return interest accrued in past years.

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\*/ In view of the conclusion that the Institute should not  
retain any interest, it is not necessary to consider whether  
the Institute's present use of interest income for its  
endowment fund would otherwise fall within the scope of  
appropriations for operation and maintenance of the Labora-  
tory.