

COST TRANSFERS

WHAT ARE THEY? WHY SHOULD I CARE?

Overview:

- **A in-depth session on the impact of cost transfers on sponsored projects at NAU: minimizing the need, monitoring the process, and managing the risks**

COST TRANSFERS

WHY SHOULD I CARE?

- Most sponsored projects at NAU are funded with federal dollars, either directly or as flow-through (sub-awards).
 - NAU has the responsibility to use these funds in accordance with applicable laws and sponsor terms and conditions.
 - Frequent cost transfers and cost transfers made long after the original cost is incurred (even if valid) raise questions about the reliability of the institution's systems and internal controls.

COST TRANSFERS

INTERNAL CONTROLS INCLUDE:

- Systems
 - PeopleSoft Financials
 - PeopleSoft HCM
- Policies & Procedures
 - Be mindful of the letter and the spirit
- Checks and Balances
 - Transactions are reviewed/approved at multiple levels
- Training

COST TRANSFERS

WHAT ARE THEY?

- Any cost that is **first charged to one funding source and later charged to another**. Cost transfers are particularly problematic for restricted funds (grants) – where one or both of the funding sources is a sponsored project. Uniform Guidance refers to these as “cost allocations.”
- Cost Transfers can be:
 - Salary and Fringe Benefits
 - Non-Salary expenditures

COST TRANSFERS

WHAT ARE COMMON CAUSES

A cost has been charged to the incorrect project and needs to be moved to correct the project or local funds due to:

- Data Entry Error
- Re-allocation of effort
- Costs incurred prior to award notification

COST TRANSFERS

NIH GRANT POLICY STATEMENT

- Cost transfers to NIH grants by grantees, consortium participants, or contractors under grants that represent corrections of bookkeeping errors should be accomplished **within 90 days of when the error was discovered.**
- The transfer must be supported by documentation that fully explains how the error occurred and a certification of the correctness of the new charge by a reasonable organizational official of the grantee, consortium participant, or contractor

COST TRANSFERS

NIH GRANT POLICY STATEMENT (CONT'D)

- An explanation merely stating that the transfer was made “to correct error” or “to transfer to correct project” is ***NOT*** sufficient.
- Transfers of costs from project to another or from one competitive segment to the next solely to cover cost overruns are not allowable.

COST TRANSFERS NEGATIVE IMPACTS

- Questionable Burn Rate
 - Spending trends need to align with reported activities
- Cash on Hand
 - Most sponsors reimburse NAU for posted costs on a monthly or quarterly basis
- Effort Re-certification
 - Effort reports are based on payroll records, and PIs certify that those costs accurately reflect actual effort
- Can signal ineffective Internal Controls

COST TRANSFERS

- *Some* Cost Transfers are *NOT* considered problematic:
 - Purchase of supplies or services from another NAU unit, processed on an IST or IDT journal
 - Correction of accounting to better reflect the nature of an expense on the same funding source (account code correction)
 - But be careful.... Reclassifications should not be made in an attempt to make an unallowable cost appear allowable
 - Allocation corrections between Associated Projects
 - Transferring off system-imposed unallowable costs

COST TRANSFERS

BE MINDFUL

- The federal government:
 - Scrutinizes cost transfers closely for indications of cost misallocation
 - Often disallows cost transferred onto federal accounts on the basis of misallocation or because of non-compliance with timing, documentation and procedural requirements
- Cost Transfers should NOT be a tool for managing sponsored project
- Cost Transfers onto sponsored projects may not be done
 - To correct deficiencies caused by overruns or other funding considerations
 - To avoid restrictions imposed by law or by terms of a sponsored project
 - For other reasons of convenience

COST TRANSFERS BE MINDFUL

- At no time should sponsored projects be used to “park” charges which will subsequently be transferred elsewhere, including to competing or non-competing continuations of the same award for which the notice of award has not been received.
- NAU has a responsibility to use funds in accordance with applicable laws and sponsor terms and conditions.

COST TRANSFERS

COMMON RED FLAGS THAT SIGNAL CONCERNS TO AUDITORS

- Transfers more than 90 days after original transaction
- Transfers in the last month of the award or after the award has expired
- Large number of cost transfers
 - Overall for University
 - By Department
 - By PI
- Grants or contacts with and exact zero balance at the end of the award
- Round numbers (may be an indicator of a plugged number)
- Paying summer/periodic salary late (e.g. in December)
- Effort re-certifications

AUDIT FINDINGS

- **Yale University** – late funding resulted in cost transfers but the required documentation justifying and certifying the charge was missing
- **University of Chicago** – extensive policies and procedures were in place but not followed as required for documentation and certification
- **University of Massachusetts** – transfers not done timely and were approved with inadequate justification
- **Florida International University** – transfers with incomplete documentation, grants used as clearing accounts, transfers after grant closed – resulted in a \$11.5 million settlement

COST TRANSFERS

MANAGING RISKS

- As an institution that receives funding for sponsored projects, NAU has the obligation of managing risk with:
 - Documented Policies and Procedures
 - Strong Internal Controls
 - Training and Awareness at All Levels
 - Use of Advance Accounts

[Link to NAU Research/OSP policy](#)

[Link to NAU Comptroller policy](#)

COST TRANSFERS MANAGING RISKS

PeopleSoft Workflow is a primary tool to mitigate the need for transfers

- Provides approvers opportunity for full review of the original expense
- Approvals must be obtained from the PI or the delegated signature authority

The screenshot displays the 'Approval Status' page in the PeopleSoft Financials (FMS) system. The page header includes the NAU logo and the title 'Financials (FMS)'. The breadcrumb trail shows the path: 'Favorites | Main Menu > Worklist > Worklist > Create/Update Journal Entries'. The 'Approval' tab is selected, and the 'Submit' button is visible. The page shows the following details:

- Unit:** NAUBU
- Journal ID:** 0000150894
- Date:** 10/07/2019

The 'Approval Status' section shows the following information:

- Unit:** NAUBU
- Approval Check Active:** Y
- Approval Status:** Pending Approval
- Approval Action:** Approve
- Deny Comments:** (Empty text area)

The 'Dept & Project Manager Appr' section shows a list of approvals:

- BUSINESS_UNIT=NAUBU, JOURNAL_ID=0000150894, JOURNAL_DATE=2019-10-07, BUSINESS_UNIT_LN=NAUBU: Approved**
- Project Manager Approval**
- Approved** (Green box with checkmark)
- Huntzinger Deborah Nicole**
- IDT Journal Project Manager**
- 10/08/19 - 10:04 AM**

The 'Grant IPT Approval' section shows a list of approvals:

- BUSINESS_UNIT=NAUBU, JOURNAL_ID=0000150894, JOURNAL_DATE=2019-10-07, BUSINESS_UNIT_LN=NAUBU: Pending**
- Post Award IPT Approval**
- Pending** (Blue box with clock icon)
- Multiple Approvers**
- IDT Journal SPS Approval**

The 'Approval History' section is currently collapsed. At the bottom of the page, there are buttons for 'Save', 'Return to Search', 'Notify', 'Refresh', 'Add', and 'Update/Display'. The footer shows the breadcrumb trail: 'Header | Lines | Totals | Errors | Approval'.

COST TRANSFERS

MINIMIZING THE NEED TO TRANSFER

- Be Proactive
 - **Get the project off on the right path**
 - Review Notice of Award and Award Docs, Budget
 - **Review expense ledgers regularly**
 - **Consider effort certification implications**
 - **Communicate with PIs and OSP**

NAU COST TRANSFER PROCESS

Justification and Documentation uploaded to OnBase

➤ **IDT – non-personnel cost transfers**

- ERS Transaction Details Report showing original posting
- Copy of original receipt for item(s) purchased
- If distributing a cost to multiple funds, document methodology
- Cost Transfer Justification form [[found here](#)]

➤ **IPT – personnel cost transfers**

- Screen-shot of ePAR/eForm showing corrective action
- Cost Transfer Justification form [[found here](#)]

COST TRANSFER JUSTIFICATIONS

- In accordance with OMB Uniform Guidance (2 CFR 200), it is necessary to explain and justify transfers of charges onto federal funded sponsored projects.
- Timeliness and completeness of the explanation of the transfer are important factors in supporting allowability and allocability in accordance with federal guidelines.
- There are 4 questions that **MUST** be addressed:

COST TRANSFER JUSTIFICATIONS

- 1) Provide an explanation of the error and how it occurred.
- 2) What is the benefit of moving this expense to/from a sponsored project?
- 3) What is being done to prevent this type of expense transfer in the future?
- 4) If applicable: Why is the expense being moved 90 days or more after it originally posted?

COST TRANSFERS

MANAGING RISKS

Avoid these practices:

- Charging a cost to one project while waiting for another project to come in or be set-up in the financial system
- Posting a cost-share charge directly to a project until the cost share funding source is identified
- Charging one project for an item that benefits multiple grants because more funding is available there than on the other projects
- Transferring costs to use up an unspent balance at the end of an award
- Transferring costs from one sponsored project to another to clear an overdraft
- Transferring costs to avoid the NIH 25% carryover approval requirement

COST TRANSFERS

THE BASICS

- It is assumed that costs are charged appropriately at the time incurred; significant adjustments should not be required if adequate financial management practices and policies are in place.
 - Sponsors expect there to be adequate systems and procedures in place to minimize errors and, when needed, corrections are made timely
 - Frequent and/or late cost transfers may indicate a need for system improvements and/or enhanced internal controls
- All costs must be reasonable, allowable, allocable, treated consistently, and fully documented.

COST TRANSFERS

THE BASICS

- **Keep cost transfers to a minimum:**
 - **Charge the proper funding and account code at time of purchase**
 - Carefully review data entry
 - Avoid using commonly dis-allowed account codes [[here's a list](#)]
- **Be Timely:**
 - **Review costs and project balances regularly**
preferably monthly but *at least* quarterly
 - **Process cost transfers within 90 days after discovering the need for one**
Provide additional justification when a transfer is not made within 90 days of original posting

COST TRANSFERS

THE BASICS

➤ **Transfer appropriately:**

- Always follow University policy
- Verify that a cost charged to a project directly benefits that project
- Verify the original cost was incurred during the project period of performance

➤ **Document, document, document!**

Include a complete explanation and justification

- Anticipate Auditor questions
- Upload Cost Transfer Justification Form
- Upload other required supporting documents: receipts, screenshots, etc.

COST TRANSFERS

BETTER JUSTIFICATIONS

Questionable justification:

“Transfer of supplies that were charged to the department in error.”

This does justification does not adequately explain:

- why the wrong project was charged
- why/how the charge is appropriate to the project being debited
- how the error occurred

Better justification:

The supplies being transferred were purchased via PCard. The administrative assistant did not review the PCard transactions by the deadline, which caused the transactions to post to the default PCard account, which is our departmental SpeedChart. Going forward, the administrative assistant will review all PCard purchases and assign the correct SpeedChart.

COST TRANSFERS

BETTER JUSTIFICATIONS

Questionable justification:

“Transfer overage to related project.”

This justification does not:

- clearly identify which costs are to be shared
- the proportions in which the projects will share the costs
- a clear indication of how the amount to be shared was determined

Better justification:

The supply costs being transferred are used on related projects. Supplies should be shared equally on both projects, thus 50% of the cost of the highlighted items is being transferred

COST TRANSFERS

BETTER JUSTIFICATIONS

Questionable justification:

“To correct supplies charge due to clerical error.”

This justification does not:

- why and how the clerical error occurred
- why the error was not caught earlier

Better justification:

The research assistant in the lab who ordered the supplies used the SpeedChart of an expired project in error. He has been instructed to use the correct SpeedChart going forward. In the future, all supply orders will be reviewed and approved by me or another administrator prior to submission of the order so that such errors can be prevented.

**COST TRANSFERS
BETTER JUSTIFICATIONS**

Discussion/Questions

PRESENTATION CONCLUSION

This presentation will be available on the [OSP Website](#) after October 15, 2019

A notification and link will be sent out to all attendees.

Email OSP-RSVP@nau.edu for more information

NEXT INFORMATION SESSION

- November 19, 2019: Sub-Awards: What's my role as PI/Dept Admin?
- Time: 12:00 to 1:30 Place: ARD Large Pod

The purpose of this session is to review the key components of subrecipient monitoring and payments applicable to the management of outgoing subcontracts (i.e. subcontracts issued to third parties under a federal grant).

- Federal Flow-Through (2CFR200 regulations on payments to sub)
- Setting up the RQ/PO within PeopleSoft for receiving invoices
- How sub-award invoices effect the Burn Rate