

## Background Information Regarding Cost Transfers

**“DHHS Office of Inspector General (OIG) Targets Cost Transfers”** – This was part of the title of a front page article from Federal Grant News for Colleges and Universities, published jointly by NCURA and NACUBO. Periodically the Department of Health and Human Service (DHHS) OIG reports where it is targeting its audits. At a recent meeting of NCURA, representatives of the DHHS OIG discussed their FY 2005 Work Plan. Topics discussed included effort reporting, cost sharing, subrecipient monitoring, NIH salary cap compliance, prior approval requirements for shifts in PI effort of more than 25% and cost transfers. Auditing effort reporting and cost sharing was recently responsible for a Mayo Clinic settlement of \$6.5 million dollars discussed in the DGCA Forum release on June 20, 2005.

The audit of cost transfers grew primarily out of NIH not-for-cause compliance visits at major research universities. The NIH staff observations revealed "cost transfer policies tend to be nonexistent, incorrect, or confusing, and the requirements for making appropriate cost transfers are often misunderstood by institutional officials, especially PIs and departmental administrators."

The Work Plan audit objective is to "determine if cost transfers are supported by documentation that fully explains how the error occurred and a certification of the correctness of the new charge by a responsible organizational official of the grantee, consortium participant, or contractor."

According to the OIG staff, the limited review they have been able to complete at this point has identified the following systemic problems:

- ✓ accounting systems do not identify cost transfers
- ✓ transfers can be done manually outside the system
- ✓ source documentation is not reviewed to determine if it is a legitimate cost transfer

They also uncovered the following transactional problems:

- ✓ there is no documentation that adequately explains the reason for transfers, particularly for salary and effort transfers after certification and for transfers from non-Federal to Federal grants
- ✓ significant time delays occur before transfer is made
- ✓ transfers are made between budget periods
- ✓ reliance for the transfer is placed on the PI's verbal approval

Rochester Institute of Technology has developed procedures regarding the allowability of cost transfers that address the problems identified by OIG. Refer to the document "Practices and Procedures for Processing Cost Transfers" on Controller's Office web site for detailed information: <http://finweb.rit.edu/controller/sponsored/>.

Below is additional information to assist you as you consider processing a cost transfer:

1. ***Sufficient justification and supporting documentation is required.*** The journal entry explanation/justification/documentation should clearly explain "what" is being transferred or corrected and "why" the account selected is the correct account. Supporting documentation should include reference numbers such as dates of the original transaction, transaction type (e.g., Travel Expense Report, Invoice Payment Form, Purchase Order & Vendor name, etc.), and amount. The information should be clear so that an outside auditor who doesn't know our jargon can understand it.
  - ✓ Auditors often questions or find unacceptable, incomplete explanations such as "to transfer to correct/appropriate account." Auditors have questioned that explanation with "Why is the new account more appropriate?"
  - ✓ Auditors have also zeroed in on the explanation "to transfer overdraft." When these terms are used, auditors may conclude that we don't take seriously what we charge to sponsored projects.
  - ✓ Another unacceptable explanation is "to close account". This comment immediately raises questions/concerns by auditors on the appropriateness of any transfer of expense to the account or between grant accounts.
2. ***All cost transfers must be processed within 90 days of the original transaction date.*** When an award has 90 days or less remaining until the end-date, cost transfers must also meet the deadline for submission of final costs. Transfers made after 90 days raise questions on the appropriateness of the transfer. When requesting a cost transfer that involves a transaction that is older than 90 days, further justification must be included explaining what caused the delay in requesting the transfer, why it should be allowed, and an explanation as to what steps will be taken to prevent delays in the future.
3. ***Cost transfers are processed via journal entries in the Oracle financial application.*** All cost transfers beyond the 90 day period, are subject to the review and approval of the Sponsored Programs Financial Management Service Office.

Contact your Sponsored Program Financial Management Service representative if you have questions about the allowability or appropriateness of cost transfers on your sponsored project. .