Cost Transfers

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What is a Cost Transfer (Journal)_areas

The act of moving a charge from one project/account to another

- Cost transfers can occur:
  - Between two sponsored accounts
  - From a non-sponsored account to a sponsored account
  - From a sponsored account to a non-sponsored account, or
  - Between two non-sponsored accounts
Why are Cost Transfers Problematic?

• A cost that is originally placed on an account is certified for allowability, allocability tests and direct benefit to a project

• A cost transfer invalidates that original certification
## Risks of Non-compliance

<table>
<thead>
<tr>
<th>Institution</th>
<th>Date Settled/Agency</th>
<th>Issues</th>
<th>Settlement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northwestern University</td>
<td>2004/ NIH</td>
<td>Institutional base salary, K award, Certifier Assignment</td>
<td>$5.5 million</td>
</tr>
<tr>
<td>Johns Hopkins University</td>
<td>Feb 2004/ NIH</td>
<td>Faculty time &amp; effort overstated</td>
<td>$2.6 million</td>
</tr>
<tr>
<td>Harvard University</td>
<td>July 2004/ NIH</td>
<td>Government billed for salaries &amp; expenses unrelated to federal grants, self reported</td>
<td>$3.3 million</td>
</tr>
<tr>
<td>Florida International University</td>
<td>Feb 2005/ Dept of Energy</td>
<td>Effort reporting, cost transfers, payroll dist.</td>
<td>$11.5 million</td>
</tr>
<tr>
<td>University of Alabama at Birmingham</td>
<td>Apr 2005/ NIH</td>
<td>Research work overstated, Medicare billed for research</td>
<td>$3.9 million</td>
</tr>
<tr>
<td>The Mayo Clinic</td>
<td>May 2005/ NIH, others</td>
<td>Cost allocation, cost transfers, inadequate accounting system</td>
<td>$6.5 million</td>
</tr>
<tr>
<td>St. Louis University</td>
<td>July 2008/ NIH, CDC, HUD</td>
<td>Supplemental compensation, effort reporting</td>
<td>$1 million</td>
</tr>
<tr>
<td>Yale University</td>
<td>Dec 2008/ Multiple agencies</td>
<td>Cost transfers, summer salary charges, effort reporting</td>
<td>$7.6 million</td>
</tr>
<tr>
<td>Duke University</td>
<td>Jan 2009/ NIH</td>
<td>Direct charging of administrative and clerical costs</td>
<td>Final settlement &lt; recommended $ by the auditor</td>
</tr>
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</table>
Cost Transfer Guiding Principles

- Are for **correcting errors**
- Must **not** be used as a means of managing available cash balances
- Project funds are not interchangeable; the integrity of each grant account must be maintained
- Reasonableness, allowability, allocability, and consistency **must be established**; the need for a cost transfer must reflect adherence to federal cost principles and must be **well-documented**
- Costs applicable to several projects **cannot** be charged solely to a single project
- Costs not allocable to a project **cannot** be charged to that project (even temporarily)
NIH and Northwestern Standards

Cost Transfer Standards

Northwestern
- Must be made within 90 days of the original charge
- Transfers of salary charges should take place before certifying effort
- 90 day exception letter needed for transfers made after 90 days*
- Cost transfers greater than 12 months after the date of occurrence*
- Must be made 90 days after error is discovered

NIH
Cost Transfer Documentation

1. Provide a reason for the transfer
2. Explain the purpose of the transfer
3. Draw a correlation between the initial charge and the account to which it is being transferred
4. Document and maintain all relevant information to the transfer

Salaries/wages cost transfers (journals) must be supported by certified effort report if the reporting period has been open in the Effort Reporting System (ERS)

- Links to 90-day cost transfer memo and related references: http://www.northwestern.edu/coststudies/salary-cost-transfers.html
Cost Transfer Red Flags

• Transfers made in excess of 90 days after the original charge
• Transfers without a full explanation or “cookie cutter” explanations (e.g., “to correct error”)
• High volume of transfers (especially during the last month of the award)
• Patterns in timing (i.e., near end of project period) and “route” (mostly onto, and rarely off of sponsored projects) of transfers
• Transfers among “closely related” projects
• Grant to Grant transfer
How to Prevent *Unnecessary* Cost Transfers

• Establishing pre-award chartstrings, when appropriate, can prevent future cost transfers
  – Pre-award spending allows the PI to begin work and record charges against the proper chartstring related to a project before the start of the award
  – Keep in mind that costs are incurred at the institution’s or department’s risk
  – To establish a pre-award chartstring, submit the request via ESPR explaining the need and supplying budget details

• Establishing a financial plan that enables you to proactively charge expenses to the correct chartstrings from the onset

• Communicating with Payroll, recharges centers and other staff that process expenses to the grant
Timeliness and Closeouts

• Submitting cost transfer in time for reporting is a major consideration as the government tightens its closeout processes (e.g., Payment Management System)
• Deadlines for reporting expenses have changed significantly
• What do these new rules mean…
  – Grant expense need to be reconciled by the end date of the grant, not after the grant end date
  – Cost transfers submitted after the grant end date may not make the report and could be denied
    • Department may lose funding if they have not charged expenses timely
Questions?