Cost Transfers

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What is a Cost Transfer (Journal)?

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
<table>
<thead>
<tr>
<th>Institution</th>
<th>Date Settled/Agency</th>
<th>Issues</th>
<th>Settlement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northwestern</td>
<td>2004/ NIH</td>
<td>Institutional base salary; K award; Certifier Assignment</td>
<td>$5.5 million</td>
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<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>
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<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>
</tbody>
</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*

NIH

Must be made 90 days after error is discovered
Cost Transfer Documentation

- Provide a reason for the transfer
- Explain the purpose of the transfer
- Draw a correlation between the initial charge and the account to which it is being transferred
- 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](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?