Background Information Regarding Cost Transfers

What are cost transfers and why do we monitor them so closely? A **Cost Transfer** is the transfer of an expenditure, or cost, that initially posted to one project or account and is then transferred to another project or another account. The government expects that costs are charged appropriately at the time incurred and that significant adjustments should not be required if adequate financial management practices and policies exist. Frequent cost transfers and cost transfers made long after the original cost is incurred (even if valid) raise questions about the reliability of the university's policies and its internal controls.

Audits of cost transfers grew primarily out of NIH not-for-cause compliance visits at major research universities. One 2006 audit found that Yale University illegally transferred money between accounts to avoid returning unspent funds and led to Yale's payment of $7.6 million in restitution. More recently, a 2012 NSF/OIG audit determined that the University of California at Santa Barbara (UCSB) had to repay approximately $500,000 of inappropriate cost transfers.

The American Recovery & Reinvestment Act (ARRA) of 2009 is prompting additional scrutiny of award expenditures. ARRA requires quarterly status and final reports, which are closely scrutinized by the Federal government to ensure that ARRA funds are not subject to fraud, waste, and abuse. As a result, it is essential that expenditures, and any subsequent cost transfers, be timely and accurate.

Federal guidelines for cost transfers state that:

- The transfer must be:
  - Supported by documentation that fully explains how the error occurred; an explanation merely stating that the transfer was made "to correct error" or "to transfer to correct project" is not sufficient
  - Certified for correctness of the new charge by a responsible organizational official of the grantee (i.e. Principal Investigator)
- The transfer should be processed within 90 days of when the error was discovered
- Transfers of costs from one project to another … solely to cover cost overruns are <u>not allowable</u>
- Grantees must maintain documentation of cost transfers for audit or other review
- The grantee should have systems in place to detect such errors within a reasonable time frame; untimely discovery of errors could be an indication of poor internal controls
- Frequent errors in recording costs may indicate the need for accounting system improvements, enhanced internal controls, or both

Federal auditors and investigators have learned to recognize the familiar signs of abusive cost transfers. These signs include:

- Transfers that exactly clear deficits and round dollar amount transfers
- Transfers made near the end of the budget period
- Untimely transfers – especially over 90 days
- High volumes of transfers
- Post-effort report transfers
- Poorly documented transfers

December 2012

Rochester Institute of Technology has developed cost transfer procedures to address the problems identified to date. Refer to the document "Practices and Procedures for Processing Cost Transfers" on the Controller's Office web site for detailed information.

Additional information to assist you as you consider processing a cost transfer is listed below:

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. A Cost Transfer Cover Sheet must accompany other supporting documentation, which 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 question, or find unacceptable, incomplete explanations such as "to transfer to the 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 of 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 end of the accounting month that the original transaction posted in Oracle.*** Routine review of grant statements and other Oracle reports provide the opportunity to identify any potential errors that would submission of a cost transfer journal entry. When an award has 90 days or less remaining until the end-date, cost transfers must also meet the 90 day deadline for submission of final costs.

   a. ***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. Cost transfers beyond the 90 day period are subject to additional review and require approval of the Assistant Controller.

3. ***Cost transfers are processed via journal entries in the Oracle Financial application.*** RIT utilizes this application for its purchasing, accounts payable, general ledger, and fixed asset transactions.

Contact your Sponsored Programs Accounting representative if you have questions about the allowability or appropriateness of cost transfers on your sponsored project.

December 2012

Typical Audit Questions Regarding Cost Transfers

- What is the total volume of cost transfers?
- Is there a standard form (electronic or paper) for initiating cost transfers?
- Are cost transfers supported by documentation which adequately explains and justifies why the transfers were made and how the error occurred?
- Are cost transfers caused by work which is supported by more than one funding source?
- Are there cost transfers between projects which are in an overrun condition to those with unexpended balances?
- Are cost transfers which represent corrections of clerical errors made promptly after discovery?
- Are cost transfers dated?
- Are late cost transfers reviewed and approved by post award leadership?
- Is there a defined process in place for approvals?
- Is there a process for initiating cost transfers after changes on an effort certification?
- Is there a process for reviewing late cost transfers?
- Is there training that addresses cost transfers?

Examples of typical circumstances in which cost transfers are allowed:

- Correction of a clerical error
- Award notice received after project start date
- EAF not processed timely
- Charge not corrected timely in Paymentnet system
- Reallocation of expenses where multiple projects benefited
- Transfer of pre-award costs from divisional or discretionary project funds