Cost Transfers: Best Practice Basics

Office of Cost Studies - Salary
Accounting Services for Research and Sponsored Programs (ASRSP) – Non Salary

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What is a Cost Transfer?

• A cost transfer is the assignment of an expense (charge) to a federally or non-federally funded chart string that was initially recorded on another chart string.
• Also referred to as “journals”
• If less than 90 days from original charge, cost transfers may be processed online.
• If over 90 days from original charge, cost transfers are riskier and require more documentation and approvals – a paper packet must be prepared.
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.

• Must be **well documented** and adhere to Cost Principles: Reasonable, Allowable, Allocable, Consistent

• 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)
Cost Transfer Red Flags

• Transfers made over 90 days after the original charge
• Transfers without a full explanation or “cookie cutter” explanations (e.g., “to correct error”)
• No supporting documentation / attachments
• Transfers among “closely related” projects
• Grant to Grant transfers
Cost Transfer Red Flags (Continued)

- Frequent cost transfers in the same unit (should be rare, not a business process)
- High volume of transfers on a specific award (especially during the last month / near end of project period)
- Patterns in “route” (mostly onto, and rarely off of sponsored projects)
- Corrections to corrections
- Repeating the same mistake multiple times
<table>
<thead>
<tr>
<th>Institution</th>
<th>Date Settled/Agency</th>
<th>Issues</th>
<th>Settlement</th>
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<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>
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<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>
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<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>
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<tr>
<td>The Mayo Clinic</td>
<td>May 2005/ NIH, others</td>
<td>Cost allocation, cost transfers, inadequate accounting system</td>
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<tr>
<td>St. Louis University</td>
<td>July 2008/ NIH, CDC, HUD</td>
<td>Supplemental compensation, effort reporting</td>
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<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>
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</tbody>
</table>
Prevention is Preferred!

- Frequent Cost Transfers may indicate an opportunity for improvement in business processes
- Determine the root cause and take corrective actions to minimize cost transfers.
  - Establish pre-award chartstrings when appropriate
  - Establish a financial plan that enables you to proactively charge expenses to the correct chart strings from the outset.
  - Communicate with Payroll, recharge centers, and other units that process expenses on your unit’s sponsored projects.
Timeliness and Closeouts

• Submitting necessary cost transfers 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?
  – Expenses need to be reconciled by, not after, the end date of the sponsored project.
  – If submitted after the project end date, it may not be possible to include cost transfers on the final report—resulting in inability to charge the grant for valid expenses.
A common format for 90-day memos was developed to be used with a variety of transaction types. The boxes in this slide summarize the memo questions applicable to both salary and non-salary transfers.

- Salary cost transfers are processed in myHR
- Non-Salary cost transfers are processed in NUFIN
- Both require strong justification and complete documentation
Over 90 Day Justification Memo (Part 1)

1. Why was this expense originally charged to the start string from which it is now being transferred? Or, why was this expense incurred (if not yet posted)?

2. Why this charge be transferred/posted to the proposed receiving chart string? (For transfers, a correlation must be drawn between the initial charge and the chart string to which it is being transferred)

3. Why is this cost transfer/posting being requested more than 90 calendar days after the date of transaction on a budget statement/original occurrence?

4. What action is needed to eliminate the future need for cost transfers/postings of this type? Is this action being taken?
For over 90 day transfers of exempt salary, review the effort report to make sure it supports your request. If the quarter has been released, effort should be certified before submitting cost transfer journals.

- If sponsored projects will be impacted, PI signature is required.

(5) Salary transferred to sponsored projects must be supported by timely certified effort reports. For the salary charged to sponsored projects, have you certified effort for the quarter in which the transfer/charge occurs? If yes, attach the certified effort report.

- Yes
- No

(6) Signature and Approval

Signature of Preparer: ________________________________
Signature of Supervisor/
Principal Investigator: ________________________________
Signature of Dean’s Office/
Vice President or Designee ________________________________
(As needed)
Date: ____________________________
Consistency is key!

- Confirm that certified effort (if applicable), requested transactions, and journal reason (under 90 days) / memo (over 90 days) are consistent with each other— they should tell the same story.
- Tell the story and review justification in the mindset of a third party
  - If you weren’t familiar with the situation, could you understand what happened based on the documentation, and would the requested transactions/explanation seem reasonable and appropriate?
Fiscal Year Deadlines

• Adhere to submission deadlines provided by Payroll, Dean’s Offices, and Cost Studies/ASRSP so that your transactions can post in the correct fiscal year (FY).
  – If received late, non-grant transfers may be either rejected or post in the subsequent FY, resulting in inaccurate balances on Cognos reporting (may show a higher or lower balance in a given FY)
  – If grant transfer requests are late, it may result in loss of sponsored funds

• Recommend submitting all >90 day journals for the current FY to your Dean’s Office ASAP (as soon as you identify the need)

• Keep a close eye on June-August salaries and award budgets – correct errors within 90 days as much as possible
Salary Cost Transfers
Must vs. May

If there are differences between salary charged and actual effort / work on sponsored projects:

- **MANDATORY**: If a sponsored project is overcharged, you **MUST** submit a cost transfer journal to remove the overcharge.

- **OPTIONAL**: If a sponsored project is undercharged, you **MAY** be able to submit a cost transfer journal to recoup the difference (also review salary cap, budget, and sponsor/award terms & conditions).
View Effort Reports the Easy Way!

“Search Employee Effort Forms” Feature

Login to Effort Reporting System→

Select Home Page and “CERT” tab→

In Search Employee Effort Forms feature, search by Name (Last, First) or Employee ID
Verify Required/Allowed Transactions Using Effort Report*

• Compare Payroll and Certified Effort
  – If Payroll % is greater than Certified %, the account may be overcharged.
  – If Payroll % is less than Certified %, the account may be undercharged.

• Generally, Certified % - Payroll % = Transaction %
  – Additional considerations apply if over the cap and/or over one year from original charge
  – Generally no new charges are allowed to sponsored accounts over one year; however overcharges must be removed regardless of time frame

*For exempt faculty / staff, review available effort reports – all must be certified. For non-exempt staff (timecards, no effort reports) and exempt faculty / staff for which effort reports are not yet available, confirm work / effort with the PI / employee supervisor.
Example

- **60054321**: $50\% - 0\% = 50\%$ may be charged
- **60099999**: $50\% - 100\% = (-50\%)$ must be removed
- **Journal Transactions**:  
  - 610-5249999-60054321: $+3,750$
  - 610-5991234-60099999: $-3,750$

Click 100% total pay to view individual payroll transactions
Preparing > 90 Day Salary Journals

• Submit paper over 90 day salary journal requests to your school’s Dean’s Office. The packet generally includes:
  – Completed Paper Journal Form & Over 90 Day Memo
  – Certified Effort if applicable
  – Copies of impacted paychecks (pull from myHR)
  – Copies of journals processed previously, if applicable (pull from myHR)
  – Additional documentation if required (check with your individual Dean’s Office)
>90 Day Salary Journal Entry Form

- If corrections are needed in multiple effort reporting quarters, they must be split up by quarter (do not group)
  - Example: if correction is needed for Nov – Dec, journal should have transactions for 11/1 – 11/30 and 12/1 – 12/31 (*not* 11/1 – 12/31)

- If projects have different begin/end dates, you may need to complete two or more transaction sets for the same quarter
  - Example: Project 1 begins 9/1 but Project 2 begins 10/1
  - First Set: 9/1 – 9/30 (Project 1 only)
  - Second Set: 10/1-10/31 (Project 1 and Project 2)
  - Payroll cannot process a single set for 9/1 – 10/31

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<th>Fund</th>
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<th>Act.</th>
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<td></td>
<td>60076</td>
<td></td>
<td>(3,750.00)</td>
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</table>
Over 90 Day Salary Journal Resources

• Over 90 Day Salary Journal Processing Procedure, Workflow, and Best Practice Guides available here: http://www.northwestern.edu/coststudies/salary-cost-transfers.html

• To learn more about salary cost transfer processing procedures and forms, and guidance on processing under 90 day salary journals, your school Dean’s office is a great resource
Non-Salary Cost Transfers
Cost Overrun vs Error

• **Cost Overrun**
  – More is spent than was awarded
  – Expenses are valid but there aren’t enough funds to cover them

• **Accounting Error**
  – A non fraudulent (unintentional) discrepancy
    • Error of Omission: intended transaction is not processed
    • Error of Commission: a transaction is processed in the wrong amount and / or on the wrong account
Correcting Cost Overruns

• Mechanism: NUFIN Journal processed by ASRSP (non-salary expenses only)
  – Provide a non-sponsored chart string to ASRSP; GCFA will process and document a journal to remove deficit expenses
  – Deficit due solely to salary expenses generally may not be removed by NUFIN Journal; must be processed in myHR (see Salary Cost Transfers section of this presentation for more information)
Correcting Accounting Errors

• Mechanism: NUFIN Correction journal prepared by department / reviewed and approved by ASRSP GCFA. Must include:
  – Strong Justification: Explain what is being corrected, why charges were incorrect originally, and why it is appropriate to charge the receiving account.
    • If over 90 days old, explain why the correction is late, and describe your action plan to prevent late transfers in future.
  – Complete Documentation: evidence supporting the transaction; what was purchased, along with when, where, by whom, amount, etc. Examples:
    • Invoices, receipts, purchase orders, etc.
    • Related email correspondence
    • Balance statements outlining costs
Special Corrections

- Cost transfers involving Travel, Human Research Subject (“HRS”) Payments, Consulting, Center for Comparative Medicine (CCM) and Subcontracts require additional documentation
  - Travel: include full expense report
    - Examples: receipts, agenda, proof of attendance
  - HRS: include proof of distribution
    - Examples: subject payment log, signed receipt forms
  - Consulting: include all documents submitted in the NUFIN Payment Request (“PRQ”)
    - Examples: consulting form, invoices
  - CCM: include written pre-approval from Lorraine Runge (l-runge@northwestern.edu / 312.503.0888)
  - Subcontracts: discuss with GCFA & SubK team member before submitting, to avoid duplication & errors, and to confirm necessary backup docs
Correction at Point of Origin

• Important: corrections should be made in the system where the error originated.
  – myHR for salary and fringe
  – SES for graduate student tuition and stipend
    • If there is a stipend correction, it must also be updated/journaled in myHR
  – NUFIN for purchases made by requisition, purchase order, ProCard, or expense report
    • McGaw fellows are paid by requisition, so their stipends can be corrected in NUFIN
Responsibilities

• **Preparer** (Department Administrator)
  – Gathers complete documentation
  – Writes justification addressing Who, What, When, Where, and Why
  – Enters valid and appropriate chart string(s)
  – Enters the cost transfer in NUFIN

• **Approver** (Central Offices, Levels 1-4)
  – Confirms compliance with University policies and sponsor terms and conditions
  – Reviews justification & documentation for appropriateness and completeness
  – Reviews accounting balances and fund sources
  – Approves the cost transfer entered in NUFIN
Journal Date Determines Approval Deadline

Notes Regarding Journal Date

- Please take care to choose the appropriate Journal Date to reflect the month of activity.
- The selected Journal Date will represent the accounting month in which the transaction is posted.
- The system default Journal Date will reflect the current date of entry - this is particularly important around month and fiscal year end when two accounting periods are open.
- The system will not allow entries using Journal Dates that reflect a closed accounting month.
- Please reference the Monthly Closing Calendar for cut-off dates.

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http://www.northwestern.edu/financial-operations/policies-procedures/Calendar.pdf
Key Components

A) Include Correct Journal ID
B) Provide Great Justification
C) Attach Documentation

Justification belongs here. If there isn’t enough room, write the full justification and attach it to the journal, then reference that document here.
### This is what Approvers see:

**Cor Exp; 09/26/2017; COR; Over 90 Days**

Strong justification should be visible here. In addition, this journal indicates it is over 90 days old. Please review that the 90-day form has all questions answered and is signed by a PI.

- **201.98 USD**
- **Header is pending your approval**

### Summary

- **Source**: COR
- **Journal Date**: 03/20/18
- **Ledger Group**: ACTUALS
- **Entered by**: Christine Hnatusko
- **Adjusting Entry**: Non-Adjusting Entry

### Attachments

- **View Attachments (3)**

### Lines

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<tr>
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<th>100.99 USD</th>
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<td>Dept 5322000</td>
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</table>
Scenario A

• **Question:** A fellowship that pays for stipend and tuition up to $10,000 has posted allowable costs totaling $11,000. What should the department do to correct this situation?

• **Answer:** Move $1,000 of tuition via SES to a non-sponsored chart string; be sure to explain that it is deliberate cost share. Since you are purposely cost sharing from a non-sponsored source, you do not have to move an equal amount of stipend.

• **Caution:** Do not move the tuition to another sponsored project – this is unallowable.
Scenario B

• **Question:** A research grant for $10,000 pays for salary, fringe and supplies, but allows only 10% F&A. It has a cost overrun of $1,000. Posted expenses include $450 in chemicals (supplies). What should the department do to correct this situation? Hint: the direct cost deficit is $909.09.

• **Answer:** The department can ask ASRSP to process a correction journal for up to $450 for the chemicals. The balance ($459.09) must be journaled from salary and fringe in myHR; make sure to use the correct fringe benefit rate. F&A is removed along with the direct costs.

• **Caution:** Do not move the salary to another sponsored project with no certified effort/fulfilled activity – this is unallowable.
Questions?