



THE UNIVERSITY  
*of* NORTH CAROLINA  
*at* CHAPEL HILL

# 3<sup>rd</sup> Annual Symposium for Research Administrators

## Cost Transfer Policy

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July 29, 2016

# Presenters

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*\*This presentation was modified from the original - presented in 2012 by Vanessa Peoples, former Deputy Director of OSR*



# Agenda

- Define cost transfer
- Policy
- Documentation requirements
- Think Like and Auditor
- Justification examples
- Past Audit Findings
- Moving Forward
- Questions and comments



What is a cost transfer?

# What is a Cost Transfer?

- Cost transfer is an after-the-fact reallocation of a cost from one source of funding to another
- Examples
  - Moving expense from one project ID to another project ID
  - Moving expense to/from a project ID to a non project ID source



# What is a Cost Transfer?

Can be:

- Salary expenditures:
  - Labor, including salaries, wages, and benefits
  - Non-salary expenditures: costs other than salaries wages, and benefits (e.g., chemicals, lab supplies, equipment, travel, internal service provider charges)



# What is NOT a Cost Transfer?

- Purchasing card reconciliation
- Interdepartmental billings (ex. DLAM)
- Recoding expense on the same project (ex. fund, source or department)



# UNC Cost Transfer Policy



# UNC Cost Transfer Policy

UNC policy requires:

- Compliance with federal, sponsor and university policies
- Timeliness of transfers (90 days)
- Proper documentation
- and defines roles and responsibilities

<http://research.unc.edu/offices/sponsored-research/policies-procedures/section-500/policy-20/>



# UNC Cost Transfer Policy

- **Office of Management and Budget (OMB):** Any costs allocable to a particular sponsored agreement under the standards provided **may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations**, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.
- **NIH Grants Policy Statement:** Transfers must be **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. An explanation merely stating that the transfer was made “to correct error” or “to transfer to correct project” is not sufficient. Transfers of costs from one budget period to the next solely to cover cost overruns are not allowable.



# Documentation

# Ways to Initiate Cost Transfers

- Correcting journal entry
- Correcting voucher journal entry
- PAAT - retro salary distribution tool



# Documentation Criteria

Conformance with university and sponsor policies

- allowable, allocable, reasonable, and consistent

Timely

- should be prepared and submitted as soon as the need for a transfer is identified, but no later than 90 days after the posting is made
- 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



# Documentation Criteria

Fully documented why transferring

- Reason for the transfer
- Benefit to the receiving project
- Allowability and allocability to the receiving project
- Reason for timing of transfer

Supported by appropriate approvals

- Reviewed with PI
- Approved by someone of knowledge other than the initiator



Think like an Auditor

# Office of Inspector General (OIG) Auditor Perspective

According to Association of College of University Auditors –  
“Though each sponsoring agency’s OIG develops an annual work plan, universities across the country have consistently received audit finding in a number of key areas:

- Consistent treatment of direct and indirect costs
- Cost allowability
- Cost transfers
- Payroll distribution/effort reporting
- Subrecipient monitoring
- Tracking and reporting cost sharing





# Auditors Perspective

- Institutions have a responsibility to use funds in accordance with applicable law and sponsor terms and conditions.
- Scrutinizes cost transfers closely for indications of cost misallocation, and often disallows costs transferred into federal accounts on that basis, or because of non-compliance with timing, documentation, and procedural requirements.
- Frequent cost transfers and cost transfers made long after the original cost is incurred (even if valid) raise questions about the reliability of the institution's accounting system and internal controls.



# Auditors Perspective

- The types of questions raised by auditors include:
  - How did the PI know that those supplies benefited the other project?
  - Did he or she review an expenditure statement or a project budget?
  - Why was this error not identified in a timely manner?



# Allowable Expenses?

## Attribution:

- Can you attribute each expense to the specific award?
- Do you review the methodology of splitting expenses within your lab?

## Charging personnel:

- How do you allocate staff time, how often is it reviewed and what do you do about short term reallocation of staff

## Unallowable practices include:

- Rotating charges between awards
- Spending down an award because it has the largest balance



# Accelerated Spending?

- Is the rate of spending tied to the pace of work?
- Does the rapid spending indicate a change in the scope of work?
- If spending is slow is there concern about achieving project goals?
- Good practice is to monitor overall grant spending against a dollar and time budget?



# UNC OIG Audit

June 2012

# UNC OIG Audit Results

- DHHS OIG Audit
- Reviewed two prior fiscal years (2010 & 2011)
- Areas of Interest:
  - Allocation
  - Cost Transfers
  - Timing of expenses
  - Service Centers
  - General Use Items

<http://www.ncauditor.net/EPSSWeb/Reports/Financial/FSA-2013-6020.pdf>



# UNC OIG Audit Results

- Reviewed 163 transactions
- Allowable 155 transactions
- Unallowable 8 transactions
- UNC Fined - \$352,843 for unallowable costs
  - \$298K of this total was related to cost transfers
    - 164 non salary; 10 salary
- Cost transfers were not adequately documented
- Costs were not reasonable - Duplicate charges
- Costs were not treated consistently - Direct vs indirect costs



# Cost Transfer Justification Examples



# Justification Examples

- Questionable Justification – “To correct error.” Or “to transfer to correct project.”
- Reason – The amount transferred must be adequately justified as well as the reason for the transfer. What error was made?
- Remedy – Explain with specific detail how the error was made.
- Acceptable Justification – “Incorrect project ID was listed in the chart field string on the original voucher. The error was caught during reconciliation when we were notified by the department who receive the incorrect charge. This action will apply the charge to the correct project.”



# Justification Examples

- Questionable Justification – “To charge appropriate project.”
- Reason – This does not adequately explain why the wrong project was charged. Why is the new project being charged more appropriate? How was the transfer amount determined?
- Remedy – Explain why the project being charged is appropriate and how the amount was determined.
- Acceptable Justification – “To transfer 100% of Chemistry Storeroom charges for graduate student John James for the month of February, to reflect the project where the supplies were used and the student’s effort is now being charged. The Chemistry Storeroom has been notified of the change in project ID for this student.”



# Justification Examples

- Questionable Justification – “To transfer \$500 of supply costs to the appropriate project.”
- Reason – The amount transferred must be adequately justified as well as the reason for the transfer. Are projects related? Why wasn't the order charged to the proper project initially?
- Remedy – Explain how the amount was determined and how the expenditure benefits the project being charged.
- Acceptable Justification – “To transfer 50% of the supplies to the PI's new NIH project. Supplies are to be shared equally between the two related projects that used the supplies per lab usage records. The new NIH project was awarded two days after the supplies were ordered.”



# Justification Samples

- Questionable Justification – “To split maintenance charges between related projects.”
- Reason – The amount transferred must be adequately justified and reasonable. Also, indicate whether the equipment was used to support the project being charged.
- Remedy – Indicate how the amount transferred was determined and why the project being charged now wasn’t charged originally.
- Acceptable Justification – “To transfer 50% of the maintenance costs to the PI’s NSF project. The equipment is to be used equally between the two related projects. The administrator was not informed that the equipment was also going to be used for the NSF award.”



# Justification Samples

- Questionable Justification – “To move charge from department.”
- Reason – The amount transferred must be adequately justified and reasonable. Also, indicate how the charge was used to support the project being charged.
- Remedy – Indicate how the amount transferred was determined and why the project being charged now wasn’t charged originally.
- Acceptable Justification – “The start date of the grant is December 1, however the project ID was not established in the financial system until February 15. The PI needed to purchase some materials to begin work on the project in December, thus they were charged to the department until the project was established.



Other Audit Findings –  
Misuse of NIH Funding

# Misuse of NIH Funding

December 2015 - University of Florida To Pay Around  
\$19.875 Million in False Claims Settlement

- the university overcharged hundreds of grants for the salary costs of its employees, where it did not have documentation to support the level of effort claimed on the grants for those employees

Sept 2014 – University of Illinois findings related to cost transfers

- cost transfer on a 6 year grant made 21 days after the award ended.



# Misuse of NIH Funding

2008 – Yale University pay \$7.6 Million to settle OIG findings

Prosecutors accused Yale of breaking the law by mischarging federal grants in two ways. First, some Yale researchers are said to have improperly transferred grant funds to accounts that were not specifically related to the purpose of the grant. Second, the government alleged some researchers paid themselves for all their summer work, even time and effort unrelated to the grant.

Auditors reviewed documentation and emails to support salary cost transfers and emails stated “transfers were necessary to spend down funding”





# Yale's President Response...

"As stewards of public funds, it is our duty to adhere strictly to the regulations."

Yale recognizes the many demands on professors' time, but wants the faculty to shoulder more of the burden of compliance. After all, "if you gave your checkbook to me, you'd like to make sure I spent the money in an appropriate way." That means faculty members now have to add a new skill to their resume: accounting.



# Misuse of NIH Funding



**DEPARTMENT OF HEALTH AND HUMAN SERVICES**  
**OFFICE OF AUDIT SERVICES**  
**233 NORTH MICHIGAN AVENUE**  
**CHICAGO, ILLINOIS 60601**  
June 16, 2006

**REGION V**  
**OFFICE OF**  
**INSPECTOR GENERAL**

Report Number: A-05-05-00047

William J. Hogan Jr.  
Comptroller  
University of Chicago  
1225 East 60<sup>th</sup> Street  
Chicago, Illinois 60637

Dear Mr. Hogan,

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Audit of Cost Transfers Funded Under NIH Grants at the University of Chicago" for the period July 1, 2004 through June 30, 2005. A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.



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# Misuse of NIH Funding

## SUMMARY OF FINDINGS University of Chicago –

Although the University developed and implemented adequate written policies and procedures and controls relating to cost transfers and generally justified and supported cost transfers to NIH grants, our analysis of selected transactions found that staff did not always follow those procedures and cost transfers were not always documented and authorized as required.

Federal and University policies and procedures allow cost transfers to funded projects when they are reasonable, allowable, allocable, adequately supported, and timely and require adequate internal controls for monitoring grant accounts. We found that one transfer lacked required documentation to explain how the error occurred and four late transfers were made without completing or properly authorizing the required form for University oversight and approval. Ultimately, supplemental explanation and documentation supported the allowability and allocability of these cost transfers.



# Cost Transfer Audits Findings

- Georgia Institute of Technology 2009
- Yale University 2008
- Thomas Jefferson University 2007
  - “University generally documented cost transfers to federally funded grants in accordance with Federal requirements. Since 1996, NIH had designated the University as high risk because of questionable accounting for grant fund expenditures, specifically cost transfers. In 2000, the University entered into an institutional integrity agreement with HHS. The agreement stated that the University adopted new policy and procedures for cost transfers.”
- California Institute of Technology 2007
  - “found a lack of monthly PI monitoring of Federal grant expenditures, an excessive number of cost transfers involving 8 of the 12 months of one individual’s annual salary.  
Establish procedures that require that transfers of costs from overspent Federal grants to other sponsored projects require formal written justification and certification by the PI, the Division Chair, and the Associate Director of Project Accounting that the transfer of cost is proper and benefits the receiving award”



# Findings of Non-compliance

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

# Penalty for Misuse of NIH Funding

- 01/20/06 Georgetown University Medical Center departmental Administrator Adriana Santamaria & Sister- Incarceration and Restitution
- 10/04/2005 GWU \$1,825,000 False Claims Settlement 3 year Prison Sentence for PI
- 10/24/05 George Washington University Adjunct Professor – 5 Month Prison Sentence
- 10/22/06 University of Vermont – Poehlman (one of the most expansive cases of scientific fraud & first PI to serve jail time for fabricating data)
- 12/16/97 Medical College of Georgia - \$10,000,000 stolen, 5 year prison sentence for PI



## Office of Inspector General

U.S. Department of Health & Human Services

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### Audit (A-04-13-01024)


[Tweet](#)

06-27-2014

[The University of North Carolina at Chapel Hill](#) Did Not Always Claim Selected Costs Charged Directly to Department of Health and Human Services Awards in Accordance with Federal Requirements

#### Complete Report

❖ Download the  [complete report](#)

 [Adobe® Acrobat®](#) is required to read PDF files.

#### Summary

From July 1, 2009, through June 30, 2011, the University claimed reimbursement for approximately \$956.3 million in costs incurred on 1,447 grants, contracts, and other agreements (awards) from the Department of Health and Human Services (HHS). Of the \$8.5 million in transactions that we reviewed, transactions totaling \$8.2 million were allowable, but \$336,000 in transactions were not allowable. In addition, the University claimed unallowable facilities and administrative costs totaling \$17,000 that were related to the unallowable transactions.

The University claimed unallowable costs under HHS awards because University staff did not comply with University policies and procedures for adequately documenting cost transfers, adequately reviewing costs charged to awards, and assuring that costs are treated consistently. As a result, the University did not always administer its HHS awards cost effectively or in compliance with Federal requirements.

# Moving Forward



# Prevent Cost Transfers

Know spending authority for each project

- What is allowable on the project

Review budget and spending authority with PI at beginning of project and a minimum of four times throughout the fiscal year

Work Proactively:

- Status of all active accounts
- Charges
- Miscellaneous items
- Recognize allocation disbursement methods of charges
- Understand effort commitments
- Contact ORS with questions
- Advise ORS of any inquiry from external



# Steps to Mitigate Cost Transfers

Know the terms of awards.

[http://grants.nih.gov/grants/policy/nihgps\\_2003/index.htm](http://grants.nih.gov/grants/policy/nihgps_2003/index.htm)

Know Activities/Changes Requiring NIH Prior Approval

For example, 25% reduction in effort, change in scope, transferring work off-site.

Know When Reports Are Due

Data Management – Record Retention

Facilitate PI Management of Grant Account

Know/implement the NIH Cost Principles

Charges must be reasonable, allowable, allocable & conform with institutional policies

Provide oversight & monitor collaborator (sub-recipient) activities

Personnel Management

Collect/submit COI forms

Timely completion of semi-annual effort reporting



# Steps to Mitigate Cost Transfers

- Document transactions at the time they occur
  - Align recording of expenses with budget and budget justifications
  - Communicate with principal investigators regularly (meet and/or send reports via email)
- Project reconciliations
  - Monthly but no less than quarterly



# Questions????



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