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
## Risk of Non-Compliance...

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<tr>
<th>Institution</th>
<th>Settlement Date/ Agency</th>
<th>Alleged Misconduct Issues</th>
<th>Settlement</th>
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<tr>
<td>Yale University</td>
<td>2007</td>
<td>Cost transfers; summer salary charges</td>
<td>$7.6 million</td>
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<tr>
<td>University of Massachusetts Medical School</td>
<td>NIH</td>
<td>Cost transfer; unsupported labor charges</td>
<td>$24K; triggered Yale &amp; Roger Williams Hospital audits</td>
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<tr>
<td>California Institute of Technology</td>
<td>2006 pending NSF review/</td>
<td>Timeliness; NSF grants</td>
<td>N/A</td>
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<td>Howard University</td>
<td>2006</td>
<td>Cost sharing on NSF grants</td>
<td>N/A</td>
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<tr>
<td>University of Pennsylvania</td>
<td>2006/ NSF</td>
<td>Timeliness; cost transfers</td>
<td>$3.3 million</td>
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<td>University of Alabama at Birmingham</td>
<td>2005</td>
<td>Research work overstated; Medicare billed for research</td>
<td>$3.4 million</td>
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<td>Harvard University</td>
<td>2004</td>
<td>Government billed for salaries &amp; expenses unrelated to federal grants</td>
<td>$2.4 million</td>
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<td>Johns Hopkins University</td>
<td>2004/ NIH</td>
<td>Faculty time &amp; effort overstated</td>
<td>$2.6 million</td>
</tr>
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<td>Florida International U.</td>
<td>2004</td>
<td>Cost transfers and direct costs</td>
<td>$11.5 million</td>
</tr>
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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 Transfers**

- **Northwestern**
  - 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 within 90 days of the original charge.
  - Must be made 90 days after error is discovered.

*Except for costs greater than 12 months, a 90 day exception letter is required for transfers made after the 90 days.*
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?