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 processed over 90 days from the original charge, cost transfers are riskier and require more documentation and approvals

Guiding Principles

- Are for **<u>correcting errors</u>**; must **<u>not</u>** 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 **<u>well documented</u>** and adhere to Cost Principles: Reasonable, Allowable, Allocable, Consistent
- Costs applicable to several projects **<u>cannot</u>** be charged solely to a single project
- Costs not allocable to a project **<u>cannot</u>** 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

Risks of Non-Compliance

Institution	Date Settled/Agency	Issues	Settlement
Northwestern University	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

Prevention is Preferred!

- Frequent Cost Transfers indicate an opportunity for improvement in business processes
- Determine the root cause and take corrective actions to minimize cost transfers
  - Establish pre-award chart strings 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 has tightened its closeout processes (e.g., Payment Management System)

- Deadlines for reporting expenses became tighter and more strict

  – 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.

Documentation & Processing > 90 Days

Explain how the error occurred

(Why was the expense originally charged to the account you're transferring from?)

Justify the transfer

(Why should the expense be moved to the account you're transferring to? Establish direct benefit to the project being charged)

Explain why the transfer was delayed

(Why wasn't the error corrected within 90 days?)

Describe how you will prevent late cost transfers in future

(Must be actions your unit is actually taking)

- 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 chart string from which it is now being transferred? Or, why was this expense incurred (if not yet posted)?

2. Why should 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?

Over 90 Day Justification Memo (Part 2)

✓ 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?

☐ Yes   ☐ No   *If yes, attach the certified effort report.*

_____
Name of Preparer *(type or print)*

_____
Signature of Preparer / Date

_____
Signature of Supervisor or Principal Investigator / Date

_____
Signature of Dean's Office, Vice President, or Designee / Date
(not needed if submitted with an online payroll journal in myHR)

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 **<u>MUST</u>** submit a cost transfer journal to remove the overcharge.

- **OPTIONAL:** If a sponsored project is undercharged, you **<u>MAY</u>** 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

After logging into ERS, use the Search Employee Effort Forms feature on the home page to search by employee name or 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.
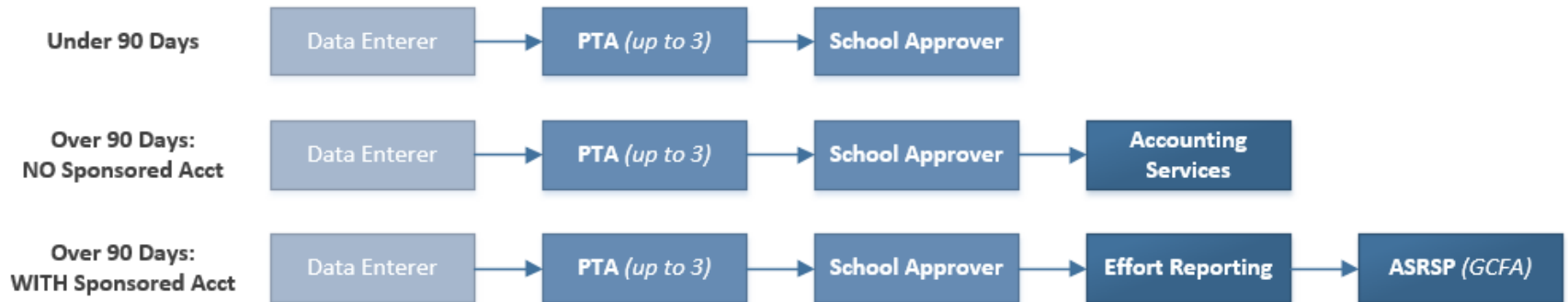
Example

- **60012345**: 70% - 63% = 7% may be charged
- **Journal Transactions:**
  - 610-9991110-60012345: +$1,876
  - 110-9991110: (-$1,876)

					Reporting Period: 3Q2019 (03-01-2019 through 05-31-2019)						
Commitment	Planned	Payroll	Accounts	Description	Pre Review Cost Transfer	Pre Review Cost Sharing	Pre Review	Certified Effort	Post Review Cost Transfer	Post Review Cost Sharing	Total
				Sponsored Accounts							
		$16,800.00 63%	610-9991110-60012345	NIH RESEARCH PROJECT	$0.00 0%	$1,876.00 7%	$18,676.00 70%	$18,676.00 70%	$0.00 0%	$0.00 0%	$18,676.00 70%
0%	0%	$16,800.00 63%		**Sponsored Subtotal**	$0.00 0%	$1,876.00 7%	$18,676.00 70%	$18,676.00 70%	$0.00 0%	$0.00 0%	$18,676.00 70%
				Non-Sponsored Accounts							
		$9,999.96 37%	110-9991110	DEPT OPERATIONS	$0.00 0%	$-1,876.00 -7%	$8,123.96 30%	$8,123.96 30%	$0.00 0%	$0.00 0%	$8,123.96 30%
	0%	$9,999.96 37%		**Non-Sponsored Subtotal**	$0.00 0%	$-1,876.00 -7%	$8,123.96 30%	$8,123.96 30%	$0.00 0%	$0.00 0%	$8,123.96 30%
		$26,799.96 100%		**Grand Total**	$0.00 0%	$0.00 0%	$26,799.96 100%	$26,799.96 100%	$0.00 0%	$0.00 0%	$26,799.96 100%

Click 100% (the total base salary) to view individual payroll transactions

Payroll Journal Workflow

- Online over 90 day journals must be approved by your Dean's office no later than Wednesday evening in order for them to be approved by Effort/ASRSP in time for Thursday GL processing

- Journals approved by the Dean's office <u>after</u> Wednesday will be processed on the <u>following week's GL</u>

- If a journal is approved by the Dean's office on Thursday and needs to be rushed, please contact your Effort Coordinator and GCFA as soon as possible to request special review. We will accommodate if possible, but same day processing is not guaranteed. Please minimize rush requests by submitting journals timely

90 Day Threshold / Online Approvals

- 90 Day Threshold
  - A journal is Over 90 Days when more than 90 days has passed between the journal's Start Date and the date of entry (e.g. Journal Start 9/1/18, entered on 12/1/18)
  - If a journal is approaching 90 days old, you have the option to enter it as an over 90 day journal (useful if you think it may not be fully approved before 90 days is reached)
- Online Approvals
  - Approval of a journal also implies approval of the attached documents, if you have the authority to do so
  - Over 90-Day biweekly and stipend journals with a sponsored account *will* route to Effort Reporting, but will be "approved" without Effort review and passed to ASRSP

Journal Entry Rules

- Valid chart string approvers (PTAs) and School Approvers must exist

- Project and account codes must be open to allow the transfer

- Journals must be separated by quarter
  - If projects have different begin/end dates falling in the same quarter, you may need to complete more than one transaction set for the same quarter

- Online entry cannot be used for emeritus funding, transfers between payroll and scholarship/stipend accounts, transfers over 12 months old, or <u>over</u> 90 day temp journals (under 90 temp journals can be submitted online).

>90 Day Salary Journals: Required Documentation

- Over 90 Day Memo with Preparer & PI Signatures
- Certified Effort Report(s) if applicable (exempt payroll) and available (quarter has been released and the initial expected due date has passed)
  - *Pre and Post Review Summaries are not sufficient as documentation*
- Individual Deans' Offices may require additional documentation

Documentation Considerations

- Since uploads cannot be deleted, care must be taken to ensure only relevant and complete information is attached
- Approvers will reject transactions if documentation is insufficient or unreasonable
  - "The PI told me it was okay." / "I just found out the grant has 10K left that I need to spend down!"
  - Certified Effort doesn't support the transactions
  - Conflicting documentation – the memo explanation doesn't match the transactions requested
  - Missing preparer or PI signatures on memo
- Upload only what is necessary to justify your request
  - Remember, all uploaded documentation is permanently stored with the processed journal record

Journal Deletion

- Journals are deleted if:
  - The transaction is denied by any approver
  - Under 90 day journal has become over 90 days without final approval
  - Over 90 day journal has passed three months from entry without final approval
- When a journal is deleted:
  - The Data Enterer is notified **only if** a journal is *denied by an approver*
  - The transaction must be re-entered, if appropriate to do so (there is no copy function)

Salary Cost Transfer Resources

- Under 90 Day workflow and instructions: https://www.northwestern.edu/myhr/admin/updates/hrs102-entering-payroll-journals.pdf

- Over 90 Day workflow and instructions: https://www.northwestern.edu/myhr/admin/updates/90-day-journals.html

- Over 90 Day Best Practice Guides: http://www.northwestern.edu/coststudies/salary-cost-transfers.html

Non-Salary Cost Transfers

Error vs Cost Overrun

- **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 chart string
- **Cost Overrun**
  - More is spent than was awarded
  - Expenses are valid but there aren't enough funds to cover them

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
    - It is okay to cost share tuition and leave payroll on the award, but if graduate student payroll/stipend is removed, related tuition <u>must</u> be removed also.
  - 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

Roles & 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**s: Departments (Levels 1 & 2), Central Offices (Level 3 - School, Level 4 – ASRSP/Accounting Services)
  - Confirms compliance with University policies and sponsor terms and conditions (Levels 1-4)
  - Reviews justification & documentation for appropriateness and completeness (Levels 1-4)
  - Reviews accounting balances and fund sources (Level 4-ASRSP if sponsored, Accounting Services if non-sponsored)
  - Approves the cost transfer entered in NUFIN (Level 4-ASRSP if sponsored, Accounting Services if non-sponsored)

Northwestern

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.

Northwestern University
NUFinancials General Ledger Closing Schedule
Fiscal Year 2019

Fiscal Year	Accounting Period [1]	Month	Upload Journal Spreadsheet / Recharge submission deadline [2] by 10:00 AM		Deadline for Portal journals & NUPortal locked at 5:00 PM [3, 4]		Reporting Available [5]	
			Date	Weekday	Date	Weekday	Date	Weekday
2019	1	September	October 2	Tuesday	October 3	Wednesday	October 5	Friday
2019	2	October	November 2	Friday	November 5	Monday	November 7	Wednesday
2019	3	November	December 4	Tuesday	December 5	Wednesday	December 7	Friday
2019	4	December	January 3	Thursday	January 4	Friday	January 8	Tuesday
2019	5	January	February 4	Monday	February 5	Tuesday	February 7	Thursday
2019	6	February	March 4	Monday	March 5	Tuesday	March 7	Thursday
2019	7	March	April 2	Tuesday	April 3	Wednesday	April 5	Friday
2019	8	April	May 2	Thursday	May 3	Friday	May 7	Tuesday
2019	9	May	June 4	Tuesday	June 5	Wednesday	June 7	Friday
2019	10	June	July 2	Tuesday	July 3	Wednesday	July 8	Monday
2019	11	July	August 2	Friday	August 5	Monday	August 7	Wednesday
2019	12	August	September 4 = Recharge Interface, September 11 = Upload Journal	Wednesday = Recharge Interface, Wednesday = Upload Journal	September 16	Monday	September 23	Monday
2020	1	September	October 2	Wednesday	October 3	Thursday	October 7	Monday

https://www.northwestern.edu/controller/fiscal-year-end/fy19_closing-calendar_final.pdf

Key Components

A
▾ Journal Purpose

◉ Correct Expense
○ Correct Revenue

▾ Original Journal Detail

Original Journal ID: [   ] 🔍
Transaction Date:
Source: -

Please make sure to:
A) Include Correct Journal ID
B) Provide Great Justification
C) Attach Documentation

B
▾ Reason / Description (200 characters allowed)

Justification belongs here. If there isn't enough room, write the full justification and attach it to the journal, then reference that document here.

C
File Attachment (Size limit 5MB each, 20MB total)   Find | View All   First ◀ 1 of 1 ▶ Last

[+] [−] **Attachment**   [Attach] [View]

This is what Approvers see:

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

Strong Justification should be visible here, in addition this journal is indiciating 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

Approve   **Deny**   **Hold**

Summary

Source	COR	Journal ID	▇
Journal Date	03/20/18	Reference Number	▇
Ledger Group	ACTUALS	Year / Period	2018 / 7
Entered by	▇	Entered on	03/20/18
Adjusting Entry	Non-Adjusting Entry	Commitment Control	Actuals and Recognized

Additional Information   90-Day Exception

▼ Attachments

View Attachments (3)   **Open and Review Attachments**   >

▼ Lines

Verify....Is this transaction within the Grant period?
Does the grant have the funds to pay for this?

2 rows

1	100.99 USD	Fund 193	Project ▇	Program
Cor Exp; 09/26/2017;COR.	Account 73475	Dept ▇	01	ChartField 1

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 to salary expenses generally should be corrected in the original System of Record (myHR) to maintain system and data integrity (see Salary Cost Transfers section of this presentation for more information)
- Pay special attention to closeout deadlines to avoid forfeiture of allowable costs
  - Please address cost overruns within 15 days of the award reporting deadline or 60 days after the award ends, whichever is earlier

Order of Precedence: Removing Costs due to Overrun

1. Non-Tuition/Non-Payroll

2. Tuition

3. Payroll

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?