NCURA Neighborhoods Online Chat

Cost Transfer Issues

August 26, 2009

Featured Guests: **Joe Gindhart**, Assistant Vice Chancellor for Finance and Director of Sponsored Projects Accounting at Washington University; **Jeffrey Silber**, Senior Director of Sponsored Financial Services, Cornell University

Moderator
Welcome to today's online chat sponsored by the Financial Research Administration Neighborhood. We are joined by Joe Gindhart and Jeff Silber.

Moderator
First some background on both of our experts this afternoon:

Joe Gindhart is the Assistant Vice Chancellor for Finance and Director of Sponsored Projects Accounting at Washington University (WU). Starting out as a staff accountant, he has been involved in post award financial research administration for over 18 years. At WU, he is responsible for the accounting, compliance and audit issues related to $525 million in annual sponsored research expenditures. Prior to his current position, he was Manager of Contracts and Grants at the University of Georgia and Director of Sponsored Project Finance at the Allegheny Health, Education and Research Foundation. Joe started his professional career with KPMG Peat Marwick after receiving his Bachelor's Degree in accounting from Boston College.

Joe is an active member of NCURA and has presented on numerous occasions at both the National and FRA meetings. Joe is a co-author of the recent NCURA micrograph, Effort Reporting: An Overview. Within the Federal Demonstration Partnership (FDP), he was co-chair of the Payroll Certification Subcommittee and also serves as WU's Institutional Representative and the Co-Chair - Financial Reporting/Audit/Costing Subcommittee.

Moderator
Jeffrey Silber is the Senior Director of Sponsored Financial Services at Cornell University. In that role he is responsible for the fiscal oversight of Cornell's Ithaca campus $300 million per year in sponsored activity. His area is also responsible for costing (including development and negotiation of the indirect cost rates), capital assets, and disbursement quality assurance.

Jeff has spent over two decades in research administration in program, central (pre-award, post-award, and financial) and systems/process reengineering areas. He has an undergraduate and MBA degree from Cornell, and is active with a variety of national organizations including NCURA and FDP, and presents regularly at national conferences.

Moderator
Let's get started, if you have comments/questions for Joe or Jeff please type them in the rectangular box below and hit enter.

Moderator
In general, what will be the key points of a good cost transfer policy?

Jeffrey Silber
A policy establishes institutional standards, in compliance with sponsor requirements, regarding cost transfers on sponsored awards. Key elements include: Permissible reasons for transfer Timeliness standard Authority required to transfer Suitable "Destination" accounts Documentation standards for transfer

Teri Herberger
Are transfers requested in a timely manner.

Moderator
Teri--can you provide more clarity?

Moderator
Gentleman: We keep hearing about this 90 day rule. Is that sponsor specific?

Teri Herberger
Following under the "timeliness standard" Jeffrey references - the transfer should occur in a reasonable time after the expense is identified as being on the wrong project.

Joe Gindhart
Teri/Moderator - To the best of our knowledge, only the NIH has a 90 day rule, and it states that "corrections of clerical or bookkeeping errors should be accomplished within 90 days of when the error was discovered." Some institutions establish a limit – which may or may not be 90 days – in their institutional policies, and the point at which the clock starts ticking may be from discovery, or the date of initial charge, or last day of the month of the initial charge.

Jeffrey Silber
Our policy at Cornell has timeliness as one of the required elements of a transfer: "To be allowable, the transfer request must be timely, fully documented, conform to university and sponsor allowability standards, and have appropriate authorization."

Pei Lin Shi
What is the myth of 90 days occurance?

Ron Polizzi
Gentleman, what specific documentation do you request when complying with "Documentations standards for transfer"?

Joe Gindhart
Pei - Auditors like to use the "90 days from occurance" standard, however A-21 or A-110 does not mention that specific timing requirement. You should point the auditors back to your institutional policy about timing, whether that be 90 days from discovery, 90 days from occurance, 90 days from month end close...

Jeffrey Silber
Ron - Our policy requires "The transfer request must be supported by documentation with a full explanation of how the error occurred and a certification of the correctness of the new charge by a responsible organizational official of the grantee (typically an individual with payment authority who has received assurance from the PI)."

Not specifically stated, but also required, is that we receive, or have access to in our files, the backup associated with the original transaction.

Mary Ellen Reeves
Can you give us examples of Audit findings regarding Journal Entries, what went wrong and why?

Kevin Roberts
NIH GPS requires errors to be corrected within 90 days from the date of discovery.

Moderator
Other than to correct the error within 90-days of discovery guidance, do you recommend making any hard and fast timeline for allowability. In other words, under what circumstances would you not allow a cost transfer such as: an error was just discovered for a transaction that was a year old or more and the supporting documentation indicates that it is an allowable, allocable, and reasonable cost?

Jeffrey Silber
Mary Ellen - I've seen audits that cite the lack of proper approval and insufficient allocability of the charges. Another area is where auditors have claimed that the purpose of the transfer was to use up balances at the end of the award. There was a significant $M settlement in the past couple of years on that one.

Jeffrey Silber
Answer to Moderator: Errors need to be corrected regardless of when they are found. At the very least improper charges to the government need to be moved off of grant accounts. Whether a charge can be moved on to an account after the 90 days (or whatever standard is established by your institution) is based on an evaluation of the circumstances and associated risks.

Joe Gindhart
Kevin - Yes, the NIH utilizes the 90 days from discovery, however a grantee can utilize a tighter time frame (90 days from occurance). Washington University follows the NIH GPS guidelines for all federal awards.

Pei Lin Shi
Yes, and DHHS requires errors to be correct within 90 days from the occurance.

Jeffrey Silber
Pei - Thanks for that DHHS reference. Whether based on occurrence or discovery, there are standards in A-21 and A-110 expecting us to have sound business practices which would lead to the discovery of errors in a timely fashion. For example the NIH GPS states "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."

Moderator
Under what circumstances could a transaction, that is over a year old, be justified to be transferred to a federal award? What if the transaction is a credit? What if the transaction is an expense?

Joe Gindhart
When an award arrives late is one acceptable justification, however we'd normally expect to see the costs transferring to the account from a pre-award account. Crediting is never a problem, such as when materials originally acquired on one project end up being used on another.

Jeffrey Silber
And A-21 states "Each institution, in the fulfillment of its obligations, should employ sound management practices."

Kevin Roberts
When we're transferring to another sponsored project, we require the error to have been "discovered" within 120 days prior to the cost transfer request date, otherwise we require the cost to be transferred to institutional funds.

Moderator
How do other institutions make sure transactions are coded to the right grant year period when a transaction, for example from a recharge center, is not posted until after the grant period ends?

Jeffrey Silber
Joe and I do not consider a recharge center a cost transfer. If there is an instance where no carry forward permitted, it is responsibility of the individuals monitoring the project to ensure that all costs are in-period.

Jeffrey Silber
Kevin - Thanks for your comment. Having a policy of transferring late transfers to institutional funds is a good, conservative approach.

Moderator
Here's a scenario: If a PI discovers effort was under-reported and thus incorrectly, would departmental or other non-sponsored source of funds be the optimal way of funding or should the FSR be resubmitted? What audit issues are raised if a FSR is resubmitted from a federal perspective?

Joe Gindhart
It depends on the magnitude of the error. Correcting with non-sponsored funds is always the lowest risk, however, there may cases where it is necessary to revise the FSR. A revised FSR could raise a red flag, and lead agency

wanting to know not only details about the transaction but also the institutional controls that failed resulting a revision.

Jeffrey Silber
Even if the feds don't complain about your FSR directly, it is possible that it would emerge as an issue on your institution's A-133 audit.

Moderator
Another scenario: We have overlapping funding for an outreach activity. One grant (we'll label "A") has received a no cost extension through January '10 (for a grant period, 8/1/08-1/31/10). The new grant (B), has a start date of 8/1/09. If, we overspend on grant A, can those costs be transferred to grant B (such as, transferring spending from one federal source to another simply because no funds are left on grant A). Note, again, the funding is from the same sponsor and is for an extension of the project with a whole new grant #. What are your thoughts?

Joe Gindhart
When looking at grant to grants transfers – which are among the riskiest transfers you will see – consider the following points. • The grants are scientifically and technically related, • There is no change in the scope of the individual grants involved, • The arrangement will not be detrimental to the effort approved under each individual award, and • The relatedness will not be used to circumvent the terms and conditions of each individual award. Note that some sponsors explicitly prohibit transfers of overruns from one project to another.

Moderator
What might be justification for a cost transfer from one federal source to another? And how does that change if the transaction is older than 90 days especially if the appearance is due to lack of funding? What if the transfer was from a federal grant to a non-federal grant? And if the transfer was requested between non-federal sources – do you care?

Kevin Roberts
We would want to see some relationship of those two awards mentioned in the award documents. For example, Grant A is meant to fund aims 1 & 3 and Grant B is meant to fund aim 2.

Jeffrey Silber
Kevin - again a very sound practice. You may not always be able to get it, but it certain strengthens a justification of such a transfer.

Jeffrey Silber
TO the Moderator: Joe provided some of the criteria to look for on grant-to-grant transfers. A challenge is that the project to which the charge was originally applied creates a presumption that it belonged there. Each “exception” increases the potential for concern (e.g. transfer, old transaction, federal to non-federal, the reason behind the transfer, etc.). At Cornell we apply federal stewardship to all awards regardless of source, unless otherwise permitted in the award. Other institutions may be more flexible in non-federal sources.

Moderator
An employee discovers they misunderstood the effort reporting process and forms, he has concluded the entire year’s forms are misstated. Some grants have ended. • Do you make the transfers, and if so, which ones, and what justification is provided? • Do you adjust the credits (decreases in effort) to federal awards that have ended? What if the award was overspent, can the new credits be used to fund the overspent funds? • Do you adjust the credits on the open awards? • Do you adjust the expenses (increases in effort) on the closed awards? • Do you adjust the expenses on the open awards – and do you treat the under 90 days old forms differently than you treat the effort reporting forms that are over 90 days old?

Joe Gindhart
First we need to make sure that the misunderstanding of the effort process has been corrected, or if there are other underlying issues. Then material misstatements need to be corrected, especially on open awards. Generally we will not ask a sponsor to reopen to add charges, nor permit people to apply “replacement charges” in association with a revision, unless there are compelling circumstances.

Jeffrey Silber
Joe ... does it make a difference that the industry sponsored clinical trials were overstated and the cost reimbursable federal awards were understated? Or vice versa?

Joe Gindhart
There may be a different risk associated with the clinical trial, especially if it were fixed cost. There may also be an incentive for a PI to undercharge a fixed price agreement, which needs to be considered.

Moderator
Are there any ramifications for the employee in this situation? What do you as an administrator/accountant do when you hear about this or when you receive the revised Effort Reporting forms out of the blue?

Joe Gindhart
Where something other than an isolated error occurs it is appropriate to notify the department chair, and if significant, the compliance/audit group to ensure that there isn't a systemic problem.

Kevin Roberts
Joe - What would you define as a material misstatement of effort?

Moderator
How do you treat cost transfers subsequent to the ARRA 10 day deadline? When/how do you report the transfers?

Jeffrey Silber
ARRA transfers will be similar to other transfers. They'll be reported on a subsequent report. Final reports may present a greater issue. At Cornell we set the deadline for final transfers by taking the FSR deadline and subtracting 30 days. Keep in mind that ARRA activity will bring greater scrutiny both through the OIGs of the various agencies and through the A133 process. So the likelihood of any given transfer being audited is greater.

Joe Gindhart
At WU, we would require a faculty/staff member to revise an effort report in the original reported percentage figure changes by +/- 5 points. That is our general standard. In some cases, adjustments to clinical faculty salaries could result in substantial dollar amounts, so you should also take that into consideration. It's not always a black and white.

Mary Ellen Reeves
We have recently been cautioned by our peers regarding emails included in the supporting documentation of Journal entries. Emails that can support authorization, background information etc... can also have information that would lead auditors to ask more questions.... what is your advice regarding this issue.

Moderator
When does the 90 day clock start for a recharge center who bills out services untimely? Does the clock start when the work is done or when the charge hits the grant account?

Jeffrey Silber
We do not consider a recharge center bill to be a cost transfer, so the clock begins to tick when the charge is applied to the account receiving the services.

Moderator
Are there ramifications for those PIs who routinely request cost transfers? If so, how are they enforced?

Jeffrey Silber
We may contact the PI or his/her department to see if there is a problem, raise the concern and/or offer additional training. This might also be referred to a compliance or audit organization.

Moderator
Is there a need to pay the sponsor (federal) interest on the draw down of funding based on an errant expense which is later transferred off the federal award and onto a non-federal account?

Joe Gindhart
Mary Ellen - Yes, I would advise you to retain only the relevant parts of the email trail related to a cost transfer. It would be prudent to remove messages that contain opinions/rants/complaints. After the issue has been resolved, you could ask the PI or department administrator to send you an individual statement about the transaction which describes the who, what and why.

Jeffrey Silber
Mary Ellen - let me also add that if there were ever an investigation those e-mails, whether or not in the journal back-up or not, are fair game for a subpoena. It is good to remind people of the importance of all written communication being professional.

Joe Gindhart
Need to determine if the amount significant. Normally to transfers on and transfer off balance each other out. Daily interest rates are extremely low right now, so the accrued amount to remit could be deemed immaterial in relation to regular draw amounts.

Moderator
Now let's talk about subrecipients. A sub provides a quarterly invoice 30 days after the quarter end. Sixty days later they provide a revised invoice. The grant has not yet ended. Presumably the revised invoice was caused by a cost transfer, and has occurred more than 90 days after the cost was incurred by the sub. What do you do?

Jeffrey Silber
If this was a final invoice we might question the department and/or subrecipient to find out what has happened. Generally, though, we rely on our subrecipients to manage their awards compliantly.

Moderator
Another scenario: Let's assume you and the PI know a grant will be funded (the sponsor has affirmed the grant will be funded, there's just a delay in getting the Notice of Grant Award out the door, and pre-award costs are allowable). How do you handle pre-award costs? Do you charge them to the grant account, or an advance account, or the department? If you're charging the expenses to somewhere other than the grant account ~ how can we prevent running into trouble with our cost transfer policy?

Joe Gindhart
Jeff and I would recommend that you establish pre-award or advance accounts. This helps establish the project allowable from the date of the initial charge. Once the award comes in we verify that all charges are within the acceptable pre-award period.

Moderator
I'm in need of overhauling my cost transfer policy. Have you found any particular university that has a great policy we could modify for my own organization?

Jeffrey Silber
Cornell's policy can be found at
http://www.dfa.cornell.edu/dfa/treasurer/policyoffice/policies/volumes/finance/coststransfers.cfm (or even easier, just go to policy.cornell.edu)

Kevin Roberts
We establish accounts in a special status which can be changed once the award comes in. That status lets us charge a single account, but not draw funds until we have award documents in place.

Joe Gindhart
Washington University's policy and Top 10 List can be found at:

http://aisweb.wustl.edu/spweb.nsf/pages/aapdflib_GenAccting/$file/AISystem_Journal.pdf
http://www.spa.wustl.edu/topten/JRs_top10r1.pdf

Moderator
Any final comments/questions for our guests? Joe/Jeff--any closing comments?

Jeffrey Silber
Thanks for the opportunity to participate in today's chat.

Joe Gindhart
Thanks for your questions. See you at the 51st Annual Meeting.

Jeffrey Silber
I look forward to seeing people at the NCURA Annual Meeting in **OCTOBER** this year

Moderator
For publications and other resources visit www.ncura.edu/Bookstore Our next chat will be *Hot Topics in Export Compliance,* with Kay Ellis, UT Austin and David Brady, Virginia Tech, Sept 23 from 2-3 pm EDT. Good afternoon!