COST TRANSFERS

What Federal Audits Reveal

Key Considerations

- Cost transfers cannot be used as a money management tool
- Must be reasonable, allocable, and allowable as per A-21
- Frequent, late, or poorly explained transfers raise questions regarding the appropriateness of expenditures and the institution’s internal controls

What Auditors Look For

- Length of time between charge appearing on an expense statement & when the transfer occurs
- Cost transfers after grant end
- Transfers from an over expensed project (especially non-federal) to another project
- Partial amount transfers

What Auditors Look For *(con't.)*

- Transfer of effort
- Volume-numerous cost transfers (esp. to correct errors)
- Volume comparison between institutional departments
- Transfers after effort certification
- Conformity of transfers to institutional policy

Best Practices

- Allow a funded project to remain open if future funding forthcoming
- Allow use of pre-award/guarantee projects if there is comfort that funding forthcoming
- Enforce that existing sponsored projects should not be used for work related to a project not yet funded
- Encourage forward adjustments rather than correcting the past

Best Practices (con’t.)

- Establish additional procedures for review/approval of “high risk” transfers
- Encourage no-cost extensions when it appears transfers are made to spend out a project
- Establish periodic training sessions focused on cost transfers

Best Practices (con't.)

- Every cost transfer should have a clear, detailed explanation of the following:
  - Why the transfer is being made
  - Why the project being debited was not charged additionally

Questionable Justifications

- “To transfer coverage to a related project”
  - If projects are related, identify which costs are to be shared and clearly indicate how the shared amount was determined
- “To correct account charged incorrectly due to clerical error”
  - Explain the nature of the clerical error
- “To transfer unallowable maintenance costs from Dr. Smith’s AHA project to his related NIH project”
  - This cost can only be charged to a project which benefited from the expense. If none are available, then the cost must be on non-restricted funds and are cost sharing

Questionable Justifications *(con't.)*

- "To charge appropriate account"
  - Explain why the account being charged is appropriate and how the amount being transferred was determined
- "To charge salary at $500 per month for four months to Dr. Smith's NIH project"
  - Explain how the amount was determined and why the account being charged was not charged correctly.
- "To charge 10.6% of Dr. Smith's salary to the appropriate account"
  - This was used to justify moving just enough to close out the account-if done all, there must be substantial justification and documentation, but generally would be disallowed in audit

Questionable Justifications *(con't.)*

- "To charge a portion of temporary employee's salary to the project"
  - Indicate the role of the individual on the project and how the amount was determined
- "To transfer $500 of supply costs to the appropriate account"
  - Explain how the amount was determined and why the account being debited should be charged
- "To split maintenance charges between related projects"
  - Indicate how the amount transferred was determined and why the project being debited was not charged at bill payment

Questionable Justifications *(con't.)*

- **"To transfer after end date charges to the appropriate accounts for the month of July…we did not get a chance to determine which one of Dr. Smith's grants would be able to support the above technician other than his NIH grants"**
  - If effort is contributed to a project which does not allow payments to that expense class, then charges must be transferred to the cost share account. You may want to reclassify the employee to permit future charges.

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