Principal Investigator Certification Program
Learning Objectives

✓ Understand the Definition of a Cost Transfer
✓ Review Allowable, Allocable and Reasonable
✓ Review Consistency
✓ Understand the Far Reaching Impact of Cost Transfers
✓ Understand Agency Perspective and Guidance
✓ Understand Howard Cost Transfer Policy
✓ Understand the Responsibilities of the PI and Department
Summary of the PI Certification Program

• Program that will ensure that principal investigators are aware of and follow the research policies and procedures of the University.
• Personnel from all units related to grants and contracts will be required to attend training, and;
• Principal Investigators will be made aware that failure to comply with regulations will result in the recommendation of sanctions by the Research Compliance Office.
• Research Education and Technical Assistance section within the Research Compliance Office, Sr. VP for Research and Compliance
Summary of the PI Certification Program

• There are 8 required modules with other supplementary modules to be developed.
  - Module 1: Overview of the University Environment
  - Module 2: Cost Principles
  - Module 3: Cost Sharing
  - Module 4: Administrative Costs
  - Module 5: Direct Costs
  - Module 6: Property Management
  - Module 7: Cost Transfers
  - Module 8: Project Monitoring
Howard Responsibilities…
• “…validate that timely and appropriate corrective actions are implemented to address all audit report recommendations.”

In order to avoid…
• “If such an evaluation discloses that Howard has not implemented actions to establish effective management control over NSF grant funds, we recommended that NSF withhold additional funding until appropriate corrective actions are instituted.”

NSF Responsibilities…
• “Resolution shall be made within a maximum of six months after issuance of a final report…”
Definition of a Cost Transfer

- Cost transfers shift encumbrances and costs, respectively, to or from one award or fund number to another.
- Cost transfers are changes initiated to retroactively change costs that have already posted to the General Ledger.
- Since a cost transfer makes a retroactive change to the general ledger, where the charges were previously approved, it poses a higher risk and therefore requires stricter scrutiny to ensure that the transfer is appropriate.

Source: NSF Audit Report Number 09-1-009
Definition of a Cost Transfer (cont.)

• A cost transfer is an after-the-fact reallocation of costs, either labor or non-labor, to an award/grant. Cost transfers move expenses from one account to another.
• In accounting for the costs of its research activities, cost transfers from one account to another are occasionally necessary to correct bookkeeping or clerical errors in the originally charged account.
• Federal requirements for cost transfers require that they are timely, supported, reasonable, allocable, allowable, and that grant accounts must have adequate internal controls so they can be monitored. In addition, specific University requirements must also be followed.

Source: DHHS Office of Audit Services - "Audit of Cost Transfers Funded Under Grants at the University of Chicago"
http://oig.hhs.gov/oas/reports/region5/50500047.pdf
Definition of a Cost Transfer (cont.)

- Transfers of costs from one funding source to another may be proper for closely related work supported by more than one funding source.
- However, frequent, tardy, and inadequately supported transfers, particularly if they involve projects with significant cost overruns or unexpended fund balances, raise serious questions about the appropriateness of the transfers and the overall reliability of the university's accounting system and internal controls.

Source: DHHS Office of Audit Services - "Audit of Cost Transfers Funded Under Grants at the University of Chicago"
http://oig.hhs.gov/oas/reports/region5/50500047.pdf
Allowable, Allocable and Reasonable

• The **tests of allowability** of costs under these principles are:
  – they must be **reasonable**;
  – they must be **allocable** to sponsored agreements under the principles and methods provided herein;
  – they must be given **consistent** treatment through application of those generally accepted accounting principles appropriate to the circumstances; and
  – they must **conform to any limitations or exclusions** set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

Source: Office of Management and Budget, Circular No. A-21
http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html
Allowable, Allocable and Reasonable (cont.)

- A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship.

- A cost is allocable to a sponsored agreement if:
  - it is incurred solely to advance the work under the sponsored agreement;
  - it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods, or
  - it is necessary to the overall operation of the institution and, in light of the principles provided in this Circular, is deemed to be assignable in part to sponsored projects…

Source: Office of Management and Budget, Circular No. A-21
http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html
Allowable, Allocable and Reasonable (cont.)

• Any costs allocable to a particular sponsored agreement under the standards provided in this Circular 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.

• c. Any costs allocable to activities sponsored by industry, foreign governments or other sponsors may not be shifted to federally-sponsored agreements.
Allowable, Allocable and Reasonable (cont.)

• A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.

• “All that can be required of a trustee to invest, is, that he shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested.” - Harvard College v. Amory, Supreme Court of Massachusetts.

Source: Office of Management and Budget, Circular No. A-21
http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html
The Importance of Consistency

• CAS 9905.501 -- Consistency in estimating, accumulating and reporting costs by educational institutions

• The purpose of this standard is to ensure that each educational institution's practices used in estimating costs for a proposal are consistent with cost accounting practices used by the educational institution in accumulating and reporting costs

• The consistent application of cost accounting practices will facilitate the preparation of reliable cost estimates used in pricing a proposal and their comparison with the costs of performance of the resulting sponsored agreement

Source: Office of Management and Budget, Circular No. A-21
http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html
The Importance of Consistency (cont.)

• All costs incurred for **the same purpose, in like circumstances**, are either direct costs only or F&A costs only
• Costs incurred for the **same purpose, in like circumstances**…

*Source:* Office of Management and Budget, Circular No. A-21
http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html
Impact of Cost Transfers – An Example

• “Transfers of costs from one funding source to another may be proper for closely related work supported by more than one funding source.”

• “However, frequent, tardy, and inadequately supported transfers, particularly if they involve projects with significant cost overruns or unexpended fund balances, raise serious questions about the appropriateness of the transfers and the overall reliability of the university's accounting system and internal controls.”

Source: DHHS Office of Audit Services - "Audit of Cost Transfers Funded Under Grants at the University of Chicago"
http://oig.hhs.gov/oas/reports/region5/50500047.pdf
Impact of Cost Transfers – An Example (cont.)

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<thead>
<tr>
<th>Project A</th>
<th>Project B</th>
<th>Results in ...</th>
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<tr>
<td>Payroll Charges</td>
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<td>Re-Certification of Effort</td>
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<td>Travel Charges</td>
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<td>Travel Follows Effort</td>
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<td>Materials &amp; Supplies</td>
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<td>Drawn Down of Funds</td>
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<td>Financial Reporting</td>
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Case Study Example

• “Our objectives were to determine whether the University (i) developed and implemented adequate written procedures and controls relating to cost transfers and (ii) justified and supported cost transfers in accordance with Federal regulations and the institution’s policies and procedures.”

• “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…”

University of Chicago – 9/2004
Module 7: Cost Transfers

**Case Study Example**

- “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.”
- “Although the University caught and corrected the undocumented and unauthorized errors, the **procedural lapses indicate a need** to reemphasize its policies and procedures for cost transfers.”
Agency Perspective and Guidance

• “Federal requirements for cost transfers require that they are timely, supported, reasonable, allocable, allowable, and that grant accounts must have adequate internal controls so they can be monitored. In addition, specific University requirements must also be followed.”

• “We reviewed the cost transfer supporting documentation provided by the University as part of our sample. We reviewed background information on the cost transfers, the Accounting System Reports, Report of Transactions, Monthly Payroll Expense Detail Report, and the documentation regarding persons authorized to initiate and approve cost transfers.”

Source: DHHS Office of Audit Services - "Audit of Cost Transfers Funded Under Grants at the University of Chicago"
http://oig.hhs.gov/oas/reports/region5/50500047.pdf
Agency Perspective and Guidance (cont.)

- A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if
  - (1) it is incurred solely to advance the work under the sponsored agreement;
  - (2) it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods.

Source: DHHS Office of Audit Services - "Audit of Cost Transfers Funded Under Grants at the University of Chicago"
http://oig.hhs.gov/oas/reports/region5/50500047.pdf
Agency Perspective and Guidance (cont.)

• . . . Any costs allocable to a particular sponsored agreement under the standards provided in this Circular (OMB A-21) 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

Source: DHHS Office of Audit Services - "Audit of Cost Transfers Funded Under Grants at the University of Chicago"
http://oig.hhs.gov/oas/reports/region5/50500047.pdf
Agency Perspective and Guidance (cont.)

- The NIH Grants Policy Statement (December 2003, Part II, Subpart A: General, Cost Considerations) discusses timeliness and adequate supporting documentation by stating:
  - Cost transfers ... should be accomplished **within 90 days** of when the error was discovered
  - The 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

Source: DHHS Office of Audit Services - "Audit of Cost Transfers Funded Under Grants at the University of Chicago"  
http://oig.hhs.gov/oas/reports/region5/50500047.pdf
Agency Perspective and Guidance (cont.)

- The NIH Grants Policy Statement (December 2003, Part II, Subpart A: General, Cost Considerations) discusses timeliness and adequate supporting documentation by stating: (cont.)
  - 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 project to another or from one competitive segment to the next solely to cover cost overruns are not allowable.

Source: DHHS Office of Audit Services - "Audit of Cost Transfers Funded Under Grants at the University of Chicago"
http://oig.hhs.gov/oas/reports/region5/50500047.pdf
Howard Cost Transfer Policy

• It is the policy of Howard University and all related entities, business units, subsidiaries and affiliated organizations including, but not limited to, Howard University Hospital (hereinafter referred to collectively as “Howard University”) to comply with all sponsor guidelines related to cost transfers between a sponsored award account and another account.

• Howard University seeks to limit cost transfers as much as is practicable and, where necessary, to transfer costs in a timely fashion. (This policy does not apply to cost transfers made between expense accounts on the same sponsored program.)
Howard Cost Transfer Policy (cont.)

*OMB Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions, Section (C)(4)(b) states:*

- “Any costs allocable to a particular sponsored agreement under the standards provided in this Circular 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.”

Howard University does not allow the types of cost transfers outlined in the Circular A-21 statement above. However, it is recognized that there are certain circumstances in which cost transfers must be conducted in order to correct charges in sponsored program accounting.
Howard Cost Transfer Policy (cont.)

• Howard University requires that cost transfers be completed within 90 days from the original expenditure date with the exception of cost transfers necessitated by an effort certification, which must be accomplished within 90 days of the certification date.

• In all cases, the 90-day time period is subject to other deadlines (e.g., the filing of a Financial Status Report), and therefore may be shorter in any given case.
Howard Cost Transfer Policy (cont.)

- All cost transfers fall into one of two categories: personnel (for salary related cost transfers) and non-personnel (for anything other than salary related cost transfers). The process for initiating both types of cost transfer is essentially the same;
- To initiate a request to transfer a cost on a sponsored program, the requester completes a Cost Transfer Form
- For personnel costs, the only acceptable reason for transferring to and from sponsored programs is to align the costs with the actual effort devoted to the project and the effort certification
Howard Cost Transfer Policy (cont.)

• Acceptable Reasons for a Cost Transfer
  – 1. To correct a clerical or bookkeeping error in the original transaction such as a transposition of numbers.
  – 2. To clear costs disallowed by the sponsor or an audit.
  – 3. To clear cost overruns on a sponsored program by transferring them to a non-sponsored program account (e.g., a Departmental discretionary account).

• Note: In addition to the reasons above, the explanation provided must include additional detail that specifically relates to the cost transfer in question.
Howard Cost Transfer Policy (cont.)

- Unacceptable Reasons for a Cost Transfer
  1. To transfer costs from a sponsored program in deficit to another sponsored program
  2. To transfer costs to a sponsored program to spend that program’s remaining funds
Howard Cost Transfer Policy (cont.)

- The following are examples of **inappropriate** justifications:
  - 1. Simply stating, “To correct an error”
  - 2. That a specific sponsored program was charged for a bulk purchase and the costs are now being moved to the appropriate sponsored programs
  - 3. That another sponsored program was charged in anticipation of future funding for the correct sponsored program
  - 4. To move costs to a sponsored program with available budget funds from another sponsored program
Howard Cost Transfer Policy (cont.)

• Final financial reports and final invoices are sent to sponsors by the 90th day after an award ends and the **cost transfers must be posted** to the university accounting system before the final financial statements are sent.

• In **extremely rare circumstances**, an expense may have been charged to the incorrect sponsored program and the error was not identified within the requisite 90 days.

• In these cases, adequate additional justification on the *Cost Transfer Form* must be completed and signed by the OSP-PASU Manager.
Howard Cost Transfer Policy (cont.)

- The justification must include a detailed explanation of why the error was not corrected in a timely manner. In addition to the requestor’s signature on the Form, a Department Chairperson’s signature is also required.

- If a cost transfer is not approved, and it cannot remain on the original account, the cost will be transferred to a department discretionary account, or other designated account to be determined by the Dean of the respective College or School.

http://ovprc.howard.edu/resources/policies.html
Case Study Example

- The objective of our audit was to determine whether the University cost transfers to federally funded grants were documented in accordance with Federal requirements.

- Since 1996, NIH has designated the University as high risk because of questionable accounting for grant fund expenditures, specifically in accounting for cost transfers. In 2000, the University entered into an institutional integrity agreement (Agreement) with HHS. In the Agreement the University stated it “adopted and implemented new policies and procedures for cost transfers …”
Case Study Example

• We selected a statistical sample of 136 cost transfers totaling $994,840, from a universe of 3,494. Our universe consisted of labor and other direct cost transfers greater than $100 made to federally funded grants during the period July 1, 2002, through June 30, 2004. Other direct costs included in the universe were items such as supplies and equipment.

• We limited our review of internal controls to obtaining an understanding of the University’s policies and procedures applicable to cost transfers during our audit period.
Case Study Example

- To determine if cost transfers complied with Federal requirements we:
  - reviewed applicable criteria in Federal law and regulations, agency specific requirements, and University policies and procedures;
  - interviewed University personnel regarding cost transfer procedures;
  - drew a sample of cost transfers made to Federal grants during our audit period; and
  - reviewed documents provided by the University to explain sampled cost transfers.

- To draw a sample of cost transfers, we used a database provided by the University. The University database consisted of all cost transfers to federally funded grants during our audit period.
Case Study Example

• The University generally documented cost transfers to federally funded grants in accordance with Federal requirements.
• Through documentation and explanation the University was able to justify all the transfers.
• We have no recommendations to report.
Responsibilities of PI and Department

- **Principal Investigator/Project Director (PI/PD):** The PI/PD is responsible for correctly charging costs to the appropriate projects and requesting cost transfers in a timely fashion (consistent with this policy).
- If a cost transfer is necessary, the PI/PD completes the *Cost Transfer Form* and submits it to RFA-OSP/GCA for processing.
- **Department Chair:** The Department Chair is responsible for reviewing and signing late cost transfers for accuracy and appropriateness as well as determining the discretionary account to receive costs from unapproved cost transfers that cannot remain on the original account.
Module 7: Cost Transfers

Helpful Links, Materials and Other Resources

  [http://ovprc.howard.edu/resources/policies.html](http://ovprc.howard.edu/resources/policies.html)
- Office of Management and Budget, Circular No. A-21
  [http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html](http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html)
- Office of Management and Budget, Circular No. A-110
  [http://www.whitehouse.gov/omb/rewrite/circulars/a110/a110.html](http://www.whitehouse.gov/omb/rewrite/circulars/a110/a110.html)
- NSF Audit Report Number 09-1-009, Georgia Institute of Technology