Strengthening Financial Compliance

Audit-Ready Practices and Effective Management of Cost Transfers

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Agenda

- Why "Best Practices" Matter
- Key Practices for Post Award Management
- Participant Support Costs
- Cost Transfers
- Cost Transfer Checklist
- Key Cost Principles
- Cost Transfer JV in K2
- Cost Transfer Explanation Form
- Supporting Documentation
- Cost Transfer Policy
- Audit Concerns
- Key Takeaways
- Resources

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Effective Practices for Financial Management of Research Grants

Effective Practices for Financial Management of Research Grants

Implementing a few "Best Practices" will support successful financial administration of grants

- Creates a documented practice of compliant financial monitoring

- Ensures timely allocation of salaries and expenses

- Establishes a routine of timely reviews of expenses with the goal of eliminating the need for Cost Transfers and LATE COST TRANSFERS (over 90 days)

- Enables compliant billing by the institution which illustrates to a sponsor that their grant funding is being utilized as intended

- Allows for accurate and timely financial reports to sponsors

- Supports timely requests for NCE's, prior-approval requests etc...

- Creates a seamless financial close-out process

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Best Practices- Manage the Award at the Start!

- Ensure the PI and Post-Award team have a <u>clear understanding of the sponsor requirements and award budget</u>

- **<u>"Kick-Off"</u> <u>Meetings</u>** should happen as soon as an award is set up in Banner
    - Review budgeted effort, adjust as necessary and process allocations to Banner index within 30 days
    - Review budgeted operating expenses and determine course of action for any required consultant agreements, equipment purchases etc…
  - Review all sponsor and institutional guidelines for things like travel, computer purchases etc… with PI and any person that may be incurring expenses on the grant
  - This meeting should include personnel that will be making any purchases and allocating expenses to the grant to assure they are familiar with the approved budget and basic guidance around allowability
  - Be sure to communicate/collaborate with the appropriate administrative personnel in other Colleges/Institutes/Departments on multi-disciplinary awards

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Best Practices- PI Meetings

- Establish **regular meetings** with the PI, program team and post award administrator
  - Ideal frequency depends upon the number of awards and award complexity- but quarterly meetings should be the absolute minimum
  - Sample Checklist:

PI Grant Review Meeting Checklist

Meeting Prep
Download Priority reports for each account or use current month DFR report ☐
Review and update PI Effort Allocation Worksheet ☐
Run Banner ePrint Open Encumbrance Report for operating encumbrances. (FZR0012) ☐
Review/analyze all accounts. Prepare projections as needed. ☐

Meeting
Review & address any overdrafts & develop action plan. ☐
Are any Advance Accounts needed? ☐
Are any No-Cost Extensions needed? ☐
Are there any upcoming progress reports, financial reports, RPPR's? ☐
Review personnel funding and allocations. ☐
  Personnel changes? Hires/Terminations/Resignations ☐
Review operating expenses posted since last meeting; volume and appropriateness. Anything missing? ☐
Review any Sub-Awards, Service Agreements, Contracts- is invoicing up to date? ☐
PI Effort
  Review PI current and upcoming funding. (new, continued; self funded or funded through other PI's) ☐
  Review PI Effort Allocation Worksheet for all current PI funding sources. Are any missing? Is Effort appropriate? ☐
Does the PI have any questions or concerns? ☐

Send meeting follow-up email recaping notes taken and tasks to be completed ☐
Send out the next meeting request

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Best Practices- Participant Support Costs

- Participant Support Costs as defined by 2 CFR 200.1, are direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects

  - Participant Support Costs are different than Study Subject Payments and/or Participant Incentives- such as for clinical trials
  - These costs MUST be included in the proposal and awarded budget documentation.
  - Generally, funds budgeted for Participant Support Costs cannot be used for other expenses without prior approval from the sponsor

  Participant-Costs-Payment-Guidance

Common examples of Participant Support Costs	NOT considered a Participant Support Cost
Stipend paid directly to participant	Conference Speaker/Trainer Fee
Travel for conference	Room Rental Fee
Registration/Conference Fees	Catering
Subsistence Allowances necessary for the individual to participate in the training	Incentive payments to Participants (G6 – Other Direct Costs on a NSF budget)

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Other Best Practices…..

- Establish who will send **monthly budget reports** and who, in addition to the PI, will review the reports for accuracy <u>each month</u>.
    - Review and confirm appropriateness of salaries paid on the grant and/or cost share index
    - Review all operating expenses posted to the award in the previous month and confirm adherence to the approved budget
    - Identify and correct erroneous charges, identify missing charges, verify subaward invoicing/payments

    - Clear, concise and descriptive business purposes for Concur expenses, D-Pays, Expense Reimbursements, JV's etc...
        - Business purpose should answer the "who, what, when, where, why, how" line of questioning:
            - **Who** made the purchased and/or used the items?
            - **What** was purchased?
            - **When** was the purchase and/or activity in which the items were used?
            - **Where** were the items used?
            - **Why** was the purchase necessary?
            - **How** were the items used to benefit the project?
                - Example: **John Doe** purchased **poster boards** on **11/07/2023** to use at the **XYZ conference in San Francisco, CA,** on **11/10/2023** to **present research findings associated with Aim 1 of the scope of work**.

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Other Best Practices...

- Utilized *Advance Accounts*- by setting up AA's when a new award is imminent, you allow PI's to begin spending prior to a fully executed contract, **eliminate the need for cost transfers**, improve the timeliness of effort allocations and avoid "parking expenses" on other awards.

- *Track grant spending* to avoid ramped up spending at the end of a grant period. Having a spend plan and monitoring it regularly ensures appropriate and compliant use of sponsor funding. All expenses paid in the final months of a grant are highly scrutinized both internally and by sponsors and auditors.

    - *Document, Document, Document!*- maintaining organized and complete records for all grant related expenses keeps you "audit-ready". Documentation should be stand-alone - meaning, it can confirm that an expense is reasonable, allowable, allocable and necessary to the project. This includes clear documentation for cost share that requires tracking outside of Banner- such as NIH salary cap, third party contractors, IDC under recovery, etc...

  - *Look ahead* - don't wait until the last minute to make requests to a sponsor such as rebudgeting funds, no-cost extensions, changes in Key Personnel.

      - *Resolve issues as they arise*- don't wait until the end of an award.

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An Ounce of Planning
Equals a Ton of Success

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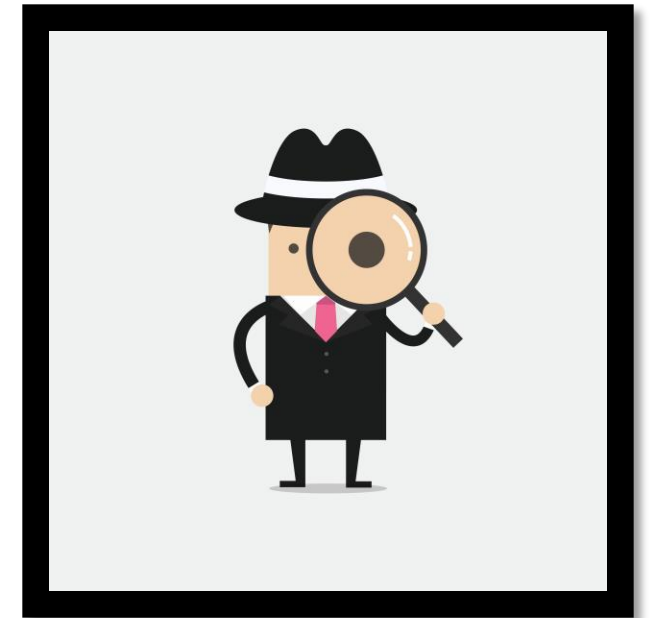VIRTVS

Cost Transfers

A cost transfer is the reassignment of an expense **to** a sponsored project (5-ledger). Cost transfers may be needed to correct a clerical error on an original charge or to correct the allocation assignment of an expense. Cost transfer requests are submitted in the Journal Voucher K2 Page.
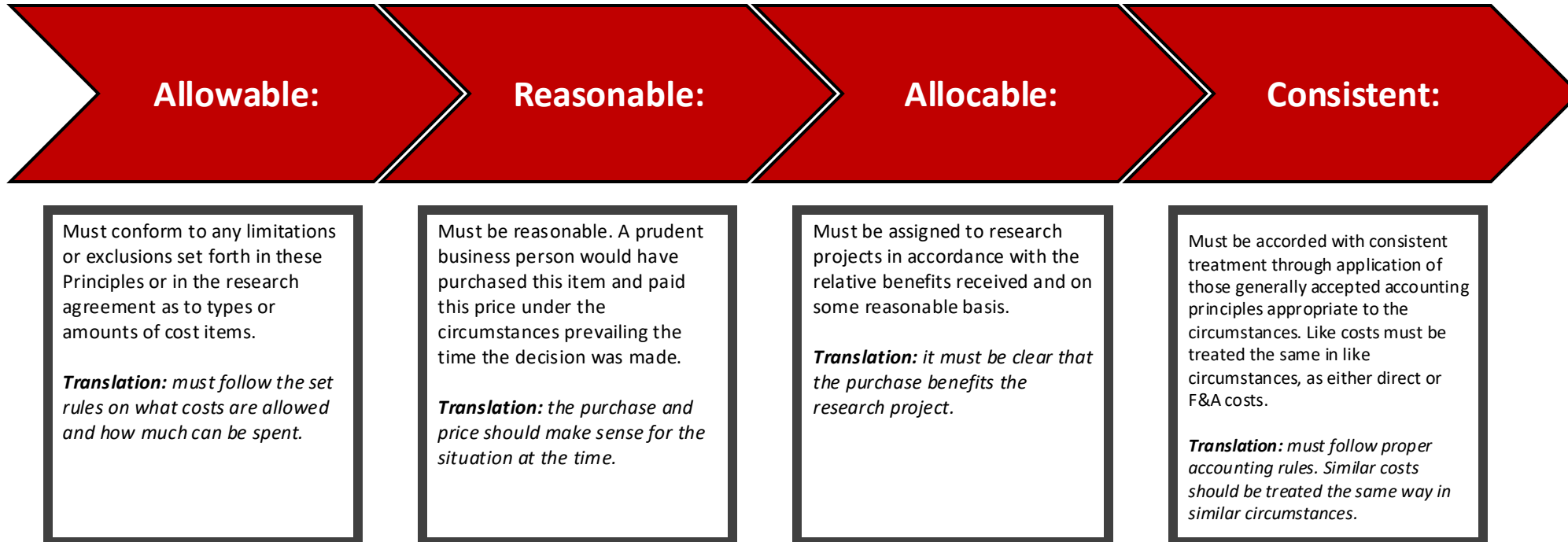
Key Components:

- Should be made promptly using the Cost Transfer Form (within 90 days of original posting date)
- Must use expense account codes (starting with 7xxxx) to move actual costs
- Include supporting documentation and justification sufficient to stand the test of a formal audit
- **Transfers that are beyond 90 days of the original transaction date require additional explanation**

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Cost Transfer Compliance Checklist

Is the project/fund active, and are there sufficient funds available?	❑ Yes ❑ No
Did the expense occur within the allowable period of performance?	❑ Yes ❑ No
Did the PI or delegate approve the request (is the CT form signed and dated)?	❑ Yes ❑ No
Does the Cost Transfer Form clearly explain how the expense benefits the receiving project?	❑ Yes ❑ No
Is the expense allowable according to the award's terms & conditions?	❑ Yes ❑ No
Are the costs reasonable and do they meet the 4 key cost principles?	❑ Yes ❑ No
(ONLY if >90 days has passed since transaction date) Have we provided additional justification explaining the delayed CT?	❑ Yes ❑ No

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Key Cost Principles

Allowable:	**Reasonable:**	**Allocable:**	**Consistent:**

Must conform to any limitations or exclusions set forth in these Principles or in the research agreement as to types or amounts of cost items.

Translation: must follow the set rules on what costs are allowed and how much can be spent.

Must be reasonable. A prudent business person would have purchased this item and paid this price under the circumstances prevailing the time the decision was made.

Translation: the purchase and price should make sense for the situation at the time.

Must be assigned to research projects in accordance with the relative benefits received and on some reasonable basis.

Translation: it must be clear that the purchase benefits the research project.

Must be accorded with consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances. Like costs must be treated the same in like circumstances, as either direct or F&A costs.

Translation: must follow proper accounting rules. Similar costs should be treated the same way in similar circumstances.

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Cost Transfer Journal Voucher in K2

	Name	Description
1	Transaction Date	Use today's date (this is the date the JV will post in Banner.
2	Is this a Cost Transfer to a Sponsored Program?	Section opens when 5-ledger is added to JV: • Select "Yes" if you are transferring costs to a grant (Banner G0000XXXX). • Select "No" if you are reallocating costs within the same grant (Banner G0000XXXX) or moving costs to a discretionary source.
3	Cost Transfer Form	• Upload signed and dated CT form. • If a transfer is made within 90 days of the effective date of the original entry, answer questions 1 & 2 only. • If over 90 days, answer all 4 questions.
4	Original Transaction Date	The date the charges were originally posted in Banner.
5	Debit	Transfers costs **onto** grant/fund.
6	Credit	Transfers costs **off** grant/fund.
7	Banner Reference	Enter the "Document Number" or "Description" of the original charge.
8	Detailed Explanation	• Optional if a CT form was uploaded. • Required for non-CT journals.

Cost Transfer Explanation Form

Must address specifically _why_ the expense was charged to the originating account. _Ex._ "Discovery of expense on incorrect account, it belongs on 5XXXXX" is not specific enough.

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Cost Transfer Explanation Form

This form should be completed for any Cost Transfers that reallocate expenditures onto sponsored projects (Fund 500XXX). The completed and signed form must be attached to the journal voucher form in K2. _Exceptions to the Cost Transfer Form requirement include journal vouchers submitted to re-class expenditures on the same Fund, deficit resolutions, cost allocations for tuition, and billing for core services._

If a transfer is made within 90 days of the effective date of the original entry, answer questions 1 and 2 only; if over 90 days, answer all four questions:

1. Why was this expense originally charged to the account from which it is now being transferred (in other words, explain the error or circumstances for originally charging the incorrect account)?

2. Why should this expense be transferred to the proposed sponsored research project account (in other words, provide an explanation as to how this expense benefits the project)?

Must address _specifically how_ expense benefits the project.
_Ex_. "Expense is relevant to project SOW" is insufficient because it is not specific enough.

3. Why is this cost transfer being requested more than 90 days after the original transaction?

4. How will you prevent this type of error from happening in the future?

Cost Transfer Approved by:

Printed name:

Title:

Email:

Signature:

Date: _____

Note: The Cost Transfer Explanation Form should be approved by the Principal Investigator (PI) or their delegate. By signing above, the PI or their delegate certifies that the cost being transferred is an appropriate expenditure for the sponsored project charged, and that the expenditure complies with the terms and restrictions governing the sponsored project.

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Supporting Documentation #1

For cost transfer JVs, examples of required supporting documentation include:

1. Banner General Ledger

- Expense report highlighting original transaction posting (source: ePrint, COGNOS). This confirms the "original transaction date" and "credit" side of the JV are accurate.
- Highlight the charges in the report that you are uploading. It should be clear to all parties (and auditors) which expenses are being transferred.

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Insights360   **FIN0144 Research Expense Report by Grant/Fund (RESFIN)**

Grant Code	Fund C	IDC Rate	Actual Transac	Document	Actual Document Code	Account Code	Account Descr	Actual Transaction Description	Actual Transaction Amount
G00008	5	10	May 14, 2024	Journal Docu	F0131568	73304	Scientific Supplie	Fisher J SMITH 189057 051024	$94.32
G00008	6	30	May 7, 2024	Journal Docu	F0131373	73304	Scientific Supplie	Fisher J SMITH 188815 050224	$115.63
G00008	6	30	May 14, 2024	Journal Docu	F0131568	73304	Scientific Supplie	Fisher J SMITH 189133 050924	$254.90
G00008	5	57	May 14, 2024	Journal Docu	F0131568	73304	Scientific Supplie	Fisher I 189179 051024	$146.65
G00008	5	57	May 14, 2024	Journal Docu	F0131568	73304	Scientific Supplie	Fisher I 189076 050824	$5.44
G00008	5	57	May 7, 2024	Journal Docu	F0131373	73301	Office Supplies	Fisher A 188769 050224	$640.92
G00008	5	57	May 7, 2024	Journal Docu	F0131373	73301	Office Supplies	Fisher A 188702 050124	$98.44

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Supporting Documentation #2

2. Original Invoices & Receipts

- Upload copies of corresponding receipts or invoices. Provide a screenshot of myMarket order, original CONCUR report with travel documentation, receipts, etc.
- For meals, be sure to remove alcohol and/or other unallowable costs.

Cost Transfer Policy

All transfer requests must contain sufficient supporting documentation, explain why the error was made and describe why the expenditure is appropriate for the project to be charged. Cost transfers should be processed within the earlier of 120 days of the date of the original transaction or 90 days of the discovery of the error.

Frequent, late, and inadequately explained transfers – especially those involving projects with cost overruns or unexpended balances – raise serious questions about the propriety of the transfers and call internal fiduciary controls into question. This may result in audit disallowances and monetary paybacks including penalties and fines.

Auditors and sponsors will flag as suspicious cost transfers with the following characteristics:
- Costs transferred long after the original charges were recorded
- Transfers supported by inadequate documentation or justification
- Transfers made at the end of a project that relieve cost overruns or spend out a project

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Audit Concerns

Documentation Gaps
- Original invoices, receipts, and GL backup are not consistently uploaded in K2.
- Cost transfer forms are incomplete - missing signatures, dates, responses, etc.
- RF cannot fill in the gaps. Departments are receiving requests for additional information during audit.

Insufficient Justification
Responses to questions 1-4 of CT form do not provide detailed explanations.
- Answers are too generic.
- Imply that grants are being used to park charges.
- Speak to lack of timely monitoring of sponsored awards.
- Unclear if transfers were reviewed/approved by the PI.

The "90 Day" rule

Errors are being discovered within the past 90 days, but cost transfers are more than 120 days after the date of the original transaction.

Although this practice complies with our current Cost Transfer Policy, auditors and sponsors have questioned NU internal controls/processes for transfers that are long after the original posting dates.

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Audit Concerns

RF Internal Reviews:

- Transfers within 6 months of the date of the original transaction are generally approved by RF if the grant is <u>active</u> and the Cost Transfer <u>documentation is complete</u>.

- Transactions >6 months are reviewed for completeness but may be rejected by RF if we determine the transfer poses an audit risk.

- Transactions ≥ 1 year should be covered from discretionary sources.

- All transfers (regardless of original transaction posting dates) will be scrutinized if the project is coming to an end.

Compliance is a team effort!

Key Takeaways

Effective & Efficient Award Management: Implement best practices for financial monitoring, timely allocation of expenses, conduct "kick-off" meetings with PI(s) and maintain regular meetings throughout the award lifecycle, review budgets early, and coordinate with administrative personnel across departments as needed.

Participant Support Costs: Maintain detailed records and obtain prior approval as-required for reallocations out of indexes with budgeted Participant Support Costs.

Cost Transfers: Process cost transfers promptly with proper documentation and justification. Ensure expenses meet sponsor allowability guidelines. Frequent, late, and unexplained transfers raise audit concerns.

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Resources

[NU Financial Monitoring of Sponsored Programs Guidelines](#)

[Policies & Guidelines | Research Enterprise Services (NU-RES)](#)

[Resources & Tools | Research Enterprise Services (NU-RES)](#)

[Allowable Cost Guidelines](#)

[Participant Support Costs Review and Process (NU-RES)](#)

[NU-RES Learn More: Cost Transfers (NU-RES)](#)

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Thank you!