Cost Transfers Audit

Report No. 23-AEN-05

February 29, 2024

Office of Audits & Consulting Services
Cost Transfers Audit

EXECUTIVE SUMMARY

Background: The University of Texas Rio Grande Valley (UTRGV) is a public research university with multiple campuses throughout the Rio Grande Valley region of Texas. UTRGV receives federal, state, and local research funding. Cost transfers are an after-the-fact reallocation of the costs to or from a sponsored project. In accounting for the costs of its research activities, cost transfers from one cost center/project to another are occasionally necessary to correct bookkeeping or clerical errors in the originally charged cost center/project. Federal requirements concerning the management of awards made to the University limit the circumstances under which cost transfers are allowed. Federal requirements for cost transfers require that they are timely, supported, reasonable, allocable, allowable, and that grant projects have adequate internal controls so they can be monitored. In addition, specific University requirements must also be followed. UTRGV’s ADM 07-303 Cost Transfer for Sponsored Projects Policy outlines the responsibilities and procedures for processing cost transfers, including payroll costs, to or from a sponsored project.

Objective: Determine whether the University developed and implemented adequate procedures and controls that justify and support cost transfers in accordance with Federal regulations and the institution’s policies and procedures.

Scope/Period: June 2022 to December 2022.

Risk Levels

<table>
<thead>
<tr>
<th>Priority</th>
<th>Observations Summary</th>
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<tbody>
<tr>
<td>Medium 1</td>
<td>Director of Grants &amp; Contracts does not approve payroll cost transfers over 90 days.</td>
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<td>Medium 2</td>
<td>Expenditure correction form is not submitted for all cost transfers and lacks formal documented approval of the Office of Grants &amp; Contracts accountant.</td>
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<td>Medium 3</td>
<td>Insufficient or inadequate support documentation.</td>
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<td>Medium 4</td>
<td>Incomplete or inadequate justifications.</td>
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<td>Medium 5</td>
<td>Frequency of cost transfers and approvals over 90-days.</td>
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<tr>
<td>Medium 6</td>
<td>Monitoring controls not functioning as intended.</td>
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<tr>
<td>Low 7</td>
<td>Lack of training related to cost transfers policy and procedures.</td>
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We appreciate the assistance provided by UTRGV’s management and other personnel throughout this audit.
<table>
<thead>
<tr>
<th>Observation Detail</th>
<th>Recommendation</th>
<th>Management Action Plan</th>
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<tr>
<td>Policy, Procedures &amp; Accuracy</td>
<td>1. The Office of Grants &amp; Contracts (G&amp;C) should ensure that the Director of Grants &amp; Contracts approves and documents all payroll cost transfers within the CFS/CJD of the HR Portal as required by policy. Additionally, effort statements for payroll cost transfers over 90 days should include documented justification of the benefit to the sponsor for changing a previously certified effort statement.</td>
<td>1. <strong>Management Action Plan:</strong> The Grants and Contracts accountant will ID payroll cost transfer over 90 days and will review if Time and Effort has been certified. If no T&amp;E has been certified will request approval from G&amp;C Director. Once approved the accountant will add in their comment section the approval to the CFS/CDJ form. If T&amp;E has been certified the accountant will need to meet with PI about the request and review the details. Training on how to provide and review CFS/CDJ information will be available for G&amp;C Accountants, PIs, and department support.</td>
</tr>
<tr>
<td><strong>Condition</strong></td>
<td></td>
<td><strong>Action Plan owner:</strong> Grants and Contracts</td>
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<tr>
<td>Payroll cost transfers over 90 days are not approved by the Director of Grants &amp; Contracts. Payroll cost transfers are processed through a change in funding source (CFS) or change in job description (CJD) form; formerly change in personnel action form (CPAF). The approval workflow does not include the Director of Grants &amp; Contracts when the cost transfer is over 90 days. Additionally, we noted that payroll cost transfers approved over 90 days did not have documented verification of effort statements not certified prior to processing the cost transfer.</td>
<td></td>
<td><strong>Implementation Date:</strong> March 29, 2024: Start training PIs and departmental support.</td>
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<tr>
<td><strong>Criteria</strong></td>
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### Cost Transfers Audit

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<td><strong>(Cause)</strong> The approval workflow does not always route to the Office Grants and Contracts, nor does it separately include the Director of Grants &amp; Contracts when the cost transfer is over 90 days. The CPAF workflow has inherent limitations impacting this process.</td>
<td>2. The Office of Grants &amp; Contracts should ensure that the Sponsored Project Expenditure Correction Request Form is submitted for all non-payroll cost transfers to document required approvals. Non-payroll cost transfers should not be initiated until a completed form is provided. Additionally, the Office of Grants &amp; Contracts should modify the Sponsored Project Expenditure Correction Request Form to include a signature line to document the review and approval (or rejection) of</td>
<td>2. <strong>Management Action Plan:</strong> Fall 2023 the Accounts Payable department implemented an automated process to submit expenditure corrections. This process has the capability to add attachments and has workflow approval. AP Workflow will require:  - Expenditure Correction Form for items over 90 days to document approvals not in the AP Workflow.  - supporting documents of expense  - comment box to enter justification of allowability for the project receiving the expense. Journal Entry Workflow will require:  - Expenditure Correction Form  - Supporting documents of the expense</td>
</tr>
<tr>
<td><strong>(Effect)</strong> Noncompliance with institutional policy ADM 07-303.</td>
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<tr>
<td>2. <strong>(Condition)</strong> The Sponsored Project Expenditure Correction Request Form is not submitted for all cost transfers in accordance with policy ADM 07-303. We identified 5 non-payroll transactions without an expenditure correction form. The Office of Grants &amp; Contracts approval of cost transfers is not formally documented on the expenditure correction form. The form lacks the Office of Grants &amp; Contracts accountants’ signature. In addition, we noted five instances where the Project Manager approval was not documented.</td>
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<td><strong>(Criteria)</strong> ADM 07-303 Cost Transfers for Sponsored Projects C. Policy 4. The Office of Grants and Contracts is responsible for reviewing and approving (or rejecting) cost transfers to/from sponsored projects in accordance with this policy. D. Procedures 2. Cost Transfer for Non-Salary Expenses a. An expenditure correction form must be completed for each Cost Transfer by the individual listed under Section C.3.</td>
<td></td>
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<td><strong>Management Action Plan</strong></td>
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<tr>
<td><strong>(Cause)</strong></td>
<td>The Sponsored Project Expenditure Correction Request Form does not have an approval signature line for the Office of Grants &amp; Contracts accountants to comply with cost transfers policy. Inadequate/Insufficient review (monitoring control) from the Office of Grants &amp; Contracts.</td>
<td>all cost transfers to/from sponsored projects in accordance with policy.</td>
</tr>
<tr>
<td><strong>(Effect)</strong></td>
<td>Noncompliance with institutional policy ADM 07-303 and possible cost disallowance.</td>
<td>The Expenditure Correction Form will be updated to include accountant approval or rejection. The form will be required for all journal entries process no matter the age of expense. The form will only need to be uploaded for items over 90 days for the AP process. Due to the automated correction request process, we will submit a change of policy request, to be reviewed by HOP. Both AP and JE process have the capability to have attachments and will be used as a central depository for the support documents. <strong>Action Plan owner:</strong> Grants and Contract <strong>Implementation Date:</strong> March 01, 2024: Submit Amendment to Policy Committee. April 30, 2024: Training Materials Completed May 01 – June 30, 2024: Training Sessions with departmental support/reconcilers.</td>
</tr>
<tr>
<td><strong>(Condition)</strong></td>
<td>Cost transfers tested lacked sufficient documentation to support the transaction. We identified 17 cost transfers with insufficient support documentation to determine the allowability, allocability and benefit to project charged.</td>
<td>3. The Office of Grants &amp; Contracts accountants should ensure that cost transfers include adequate support documentation such as original invoice, credit card receipt(s), and any <strong>3. Management Action Plan:</strong> Items department will submit through AP Workflow are: • Expenditure Correction Form for items over 90 days to document approvals not in the AP Workflow. • supporting documents of</td>
</tr>
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</table>
### Observation Detail

2. Principal Investigators (PI), Project Directors (PD), and Project Managers (PM) are responsible for:
   c. Minimizing the occurrence of cost transfers, document allowability, allocability and reasonableness of the transaction, and ensure appropriate authorizing signatures.

E. Definitions
   4. Documentation - original invoice, credit card receipt(s), and any other document that supports the transaction.

### 2 CFR Part 200, Subpart E Cost Principles

§ 200.403 Factors affecting allowability of costs.
   (g) Be adequately documented.

(Cause)

(Effect)

4. **Condition**
Cost transfers tested did not include adequate/proper justifications. We identified 14 cost transfers with inadequate or incomplete justifications. Several examples of incomplete justifications are as follow:
- For an MRI purchase, “Expense was initially charged to a central account for the Neuroscience Building expenses.”

### Recommendation

other document that supports the original transaction and kept in a central location to support the Office of Grants & Contracts’ approval.

### Management Action Plan

- comment box to enter justification of allowability for the project receiving the expense.

Journal Entry Workflow are:
- Expenditure Correction Form
- Supporting documents of the expense

**Action Plan owner:**
Grants and Contracts

**Implementation Date:**
February 29, 2024: Train accountants in reviewing adequate support for transfer.
April 30, 2024: Training Materials Completed
May 01 – June 30, 2024: Training Sessions with departmental support/reconcilers.

### 4. Management Action Plan:
AP Workflow process has a drop down menu as CC/PRJ:
- Funding not Available
- Pend Creation/Setup
- Pend Budget Revision
- Incorrect Acct Code
- Incorrect CC/PRJ
## Cost Transfers Audit

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| • “Expenditure Correction to move Vessel Research fee from 5100000566 into 5100000427 in the amount of $600.00”.
  • “Change of PAF is being processed to add new sponsored project account at 1%.” | transfers; the reason why the expenses were originally charged to the incorrect cost centers/projects, and explanations for the causes of the errors and how they were discovered. Additionally, cost transfers should document allowability, allocability and reasonableness of the transactions, and ensure appropriate authorizing signatures. | The comment section will require justification of allowability, allocability, and reasonableness. **Action Plan owner:** Grants and Contracts **Implementation Date:** February 29, 2024: Train accountants in reviewing adequate support for transfer. |

### (Criteria)

ADM 07-303 Cost Transfers for Sponsored Projects

D. Procedures

2. Cost Transfer for Non-Salary Expenses
   b. The detailed explanation must include a justification supporting the necessity of the transfer; the reason why the expense was originally charged to the incorrect cost center; and an explanation of the causes of the error and how it was discovered.

3. Cost Transfer for Salary Expenses
   The CPAF document must justify the transfer in detail.

### (Cause)

Lack of knowledge/training for PI, PD and PM.


### (Effect)

Noncompliance with institutional policy ADM 07-303.

Possible cost disallowance

5. **(Condition)**

The volume of cost transfers processed for the audit period for non-payroll transactions totaled 742. We could not determine payroll cost transfers.

5. Management Action Plan:

The Office of Grants and Contracts should implement an additional control to minimize the
## Cost Transfers Audit

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<tr>
<td><strong>(Criteria)</strong> ADM 07-303 Cost Transfers for Sponsored Projects C. Policy 1. UTRGV is committed to ensuring that all costs are timely charged to the appropriate sponsored projects when such costs are incurred. 2. Principal Investigators (PI), Project Directors (PD), and Project Managers (PM) are responsible for: c. Minimizing the occurrence of cost transfers,</td>
<td>occurrences of cost transfers. For instance, requiring corrective action plans and/or periodic reviews of areas with a high volume of cost transfers.</td>
<td>shared with the SVPR. <strong>Action Plan owner:</strong> Grants and Contracts <strong>Implementation Date:</strong> February 15, 2024: Cost Transfer Log</td>
</tr>
<tr>
<td><strong>(Cause)</strong> Lack of knowledge/training for PI, PD and PM Inadequate/Insufficient review (monitoring control) from the Office of Grants &amp; Contracts. Lack of knowledge, training and understanding of institutional policy and federal guidelines for the Office of Grants &amp; Contracts accountants.</td>
<td><strong>(Effect)</strong> Noncompliance with institutional policy ADM 07-303. Noncompliance with Federal Regulations and possible cost disallowance.</td>
<td><strong>Management Action Plan:</strong> Grants and Contracts will review best practices and train accountants to review adequate support for transfer requests. Director/Manager will review the cost transfer log quarterly for areas with high volume. Also, will compare the log to available reports (queries). <strong>Action Plan owner:</strong> Grants and Contracts</td>
</tr>
<tr>
<td><strong>Monitoring</strong> 6. <strong>(Condition)</strong> The Office of Grants and Contracts’ monitoring process is not working as intended. Although the Office of Grants and Contract’s accountants review cost transfers prior to posting, we identified instances of no expenditure request forms, insufficient support documentation, incomplete justifications, and required approvals not obtained. Additionally, there is no mechanism in place to identify cost transfers made. The Office of Grants &amp; Contracts could not</td>
<td>6. Since the Office of Grants and Contracts review and approval is the monitoring control, G&amp;G’s review and approval should include verifying that each transfer contains:  - Sponsored</td>
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<td>provide the cost transfer population for the period tested. Since cost transfers cannot be clearly identified, there is no review of cost transfer metrics for compliance requirements &amp; monitoring.</td>
<td>Project Expenditure Correction Request Form, • Sufficient support documentation, • Adequate and complete justifications, and • Required approvals.</td>
<td>Implementation Date: February 15, 2024: Cost Transfer Log February 29, 2024: Train accountants in reviewing adequate support for transfer. March 11, 2024: Review available queries from PS.</td>
</tr>
</tbody>
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(Criteria)
ADM 07-303 Cost Transfers for Sponsored Projects
C. Policy
4. The Office of Grants and Contracts is responsible for reviewing and approving (or rejecting) cost transfers to/from sponsored projects in accordance with this policy.

2 CFR Part 200, Subpart E Cost Principles
§ 200.303 Internal controls.
The non-Federal entity must:
(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
(c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.

(Cause)
Lack of knowledge, training and understanding of institutional policy and federal guidelines for the Office of Grants & Contracts accountants.

(Effect)
Internal control weakness
## Cost Transfers Audit

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<tr>
<td><strong>Training</strong> 7. <em>(Condition)</em></td>
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<td>7. <strong>Management Action Plan:</strong> Grants and Contracts will create training material on cost transfers and will provide training to PIs, reconcilers, and departmental support. The training will be recommended but will not be mandatory. The training material will also be available online with other Division of Research resources. <strong>Action Plan owner:</strong> Grants and Contracts <strong>Implementation Date:</strong> April 30, 2024: Training Materials Completed May 01 – June 30, 2024: Training Sessions with departmental support/reconcilers.</td>
</tr>
<tr>
<td>There is no cost transfers training available for PIs, PDs, and PMs. Lack of employee knowledge and training can lead to internal control failures.</td>
<td>The Office of Grants &amp; Contracts accountants should be made aware of Uniform Guidance and UTRGV policy requirements. The Office of Grants &amp; Contracts should establish periodic training sessions focused on cost transfers and/or include training information on website. By training employees and involving them in the process, they can help identify and improve control weaknesses.</td>
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<tr>
<td><em>(Criteria)</em> 2 CFR Part 200, Subpart E Cost Principles § 200.303 Internal controls. The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).</td>
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<tr>
<td><em>(Cause)</em> Lack of knowledge, training and understanding of institutional policy and federal guidelines for Grants &amp; Contracts accountants</td>
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<td><em>(Effect)</em> Internal control weakness Noncompliance with Federal Regulations</td>
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## APPENDIX I

### Risk Classifications and Definitions

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<tr>
<th>Priority</th>
<th>Description</th>
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<tr>
<td><strong>High</strong></td>
<td>High probability of occurrence that would significantly impact UT System and/or UT Rio Grande Valley. Reported to UT System Audit, Compliance, and Risk Management Committee (ACMRC). Priority findings reported to the ACMRC are defined as “an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”</td>
</tr>
<tr>
<td><strong>Medium</strong></td>
<td>Risks are considered undesirable and could moderately expose UT Rio Grande Valley. Without appropriate controls, the risk will occur some of the time. Action is needed by management in order to address the noted concern and reduce the risk exposure to a more desirable level.</td>
</tr>
<tr>
<td><strong>Low</strong></td>
<td>Low probability of various risk factors occurring. Even with no controls, the exposure to UT Rio Grande Valley will be minimal. Action should be taken by management to address the noted concern and reduce risk exposure to the organization.</td>
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Cost Transfers Audit

APPENDIX II

Cost Transfers Process Flow

- Cost Transfers
  - Non-payroll
    - Accounts Payable
      - Population: 692
        - Tested: 15
    - Journal Voucher
      - Population: 50
        - Tested: 18
  - Payroll
    - Change in:
      - Personnel Action Form (cPAF)
      - Funding Source (CFS)
      - Job Description (CJD)
    - Population: Undetermined
      - Tested: 5
        - Performed data analytics
APPENDIX III

Methodology and Criteria

Methodology

We conducted this audit in conformance with the Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing. Additionally, we conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for findings and conclusions based on our audit objectives. The Office of Audits and Consulting Services is independent per both standards for internal auditors. These standards are also required by the Texas Internal Auditing Act.

Criteria

2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements, Subpart E Cost Principles

ADM 07-303 Cost Transfers for Sponsored Projects
Cost Transfers Audit

APPENDIX IV

Report Distribution & Audit Team

Report Distribution

Ruth Lozano, Executive Director of Research Administration
Suelema Gonzalez, Director of Grants & Contracts
UTRGV Internal Audit Committee
UT System Audit Office
Governor’s Office – Budget and Policy
State Auditor’s Office
Legislative Budget Board

Audit Team

Eloy R. Alaniz, Jr., Chief Audit Officer
Norma Ramos, Director of Audits
Angelica Coello-Pineda, Auditor