

**The University of Texas**  
**Rio Grande Valley**<sup>TM</sup>

**Cost Transfers Audit**

**Report No. 23-AEN-05**

**February 29, 2024**

**Office of Audits & Consulting Services**

**EXECUTIVE SUMMARY**

**Overall Assessment:**

Payroll and non-payroll cost transfers follow different paths with different procedures. These paths have created inconsistencies that do not align with policy and Federal requirements. Opportunities exist to improve the cost transfers' process and enhance controls.

**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  
 Appendix I**

<b>Priority</b>
<b>High</b>
<b>Medium</b>
<b>Low</b>

We appreciate the assistance provided by UTRGV's management and other personnel throughout this audit.

<b>Risk</b>	<b>Observations Summary</b>
<b>Medium</b>	1. Director of Grants & Contracts does not approve payroll cost transfers over 90 days.
<b>Medium</b>	2. Expenditure correction form is not submitted for all cost transfers and lacks formal documented approval of the Office of Grants & Contracts accountant.
<b>Medium</b>	3. Insufficient or inadequate support documentation.
<b>Medium</b>	4. Incomplete or inadequate justifications.
<b>Medium</b>	5. Frequency of cost transfers and approvals over 90-days.
<b>Medium</b>	6. Monitoring controls not functioning as intended.
<b>Low</b>	7. Lack of training related to cost transfers policy and procedures.

## Cost Transfers Audit

Observation Detail	Recommendation	Management Action Plan
<p><b>Policy, Procedures &amp; Accuracy</b></p> <p>1. <b>(Condition)</b>            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.</p> <p><b>(Criteria)</b>  <b>ADM 07-303 Cost Transfers for Sponsored Projects</b>            D. Procedures            3. Cost Transfer for Salary Expenses            A Change of Personnel Action Form (CPAF) should be completed and routed in the electronic Personnel Action Form (ePAF) system for approval by the Office of Grants and Contracts. The CPAF document must justify the transfer in detail. No salary cost transfers are permitted after effort certification reports are completed and certified by the responsible individual unless it benefits the sponsor.</p> <p>4. Timeliness            b. Cost transfers over 90 days after the original charge or effort certification reports will not be approved unless the request:            i. has approval signatures from the PI, PD, or PM (as appropriate) of the accounts which will be receiving the charge and receiving a credit, the respective department head, the Director of Grants and Contracts, as well as for certain transfers the appropriate Division head approval, as required....</p>	<p>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.</p>	<p><b>1. Management Action Plan:</b>            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.</p> <p><b>Action Plan owner:</b>  <i>Grants and Contracts</i></p> <p><b>Implementation Date:</b>            March 29, 2024: Start training PIs and departmental support.</p>

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Observation Detail	Recommendation	Management Action Plan
<p><b>(Cause)</b> 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.</p> <p><b>(Effect)</b> Noncompliance with institutional policy ADM 07-303.</p> <p>2. <b>(Condition)</b> 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.</p> <p>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.</p> <p><b>(Criteria)</b> <b>ADM 07-303 Cost Transfers for Sponsored Projects</b> 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.</p>	<p>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.</p> <p>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</p>	<p><b>2. Management Action Plan:</b> 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.</p> <p>AP Workflow will require:</p> <ul style="list-style-type: none"> <li>• Expenditure Correction Form for items over 90 days to document approvals not in the AP Workflow.</li> <li>• supporting documents of expense</li> <li>• comment box to enter justification of allowability for the project receiving the expense.</li> </ul> <p>Journal Entry Workflow will require:</p> <ul style="list-style-type: none"> <li>• Expenditure Correction Form</li> <li>• Supporting documents of the expense</li> </ul>

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Observation Detail	Recommendation	Management Action Plan
<p><b>(Cause)</b>                      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.</p> <p><b>(Effect)</b>                      Noncompliance with institutional policy ADM 07-303 and possible cost disallowance.</p> <p>3. <b>(Condition)</b>                      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.</p> <p><b>(Criteria)</b>  <b>ADM 07-303 Cost Transfers for Sponsored Projects</b>                      C. Policy</p>	<p>all cost transfers to/from sponsored projects in accordance with policy.</p> <p>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</p>	<p>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.</p> <p><b>Action Plan owner:</b>  <i>Grants and Contract</i></p> <p><b>Implementation Date:</b>                      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.</p> <p><b>3. Management Action Plan:</b>                      Items department will submit through AP Workflow are:</p> <ul style="list-style-type: none"> <li>• Expenditure Correction Form for items over 90 days to document approvals not in the AP Workflow.</li> <li>• supporting documents of</li> </ul>

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Observation Detail	Recommendation	Management Action Plan
<p>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.</p> <p><b>2 CFR Part 200, Subpart E Cost Principles</b> § 200.403 Factors affecting allowability of costs. (g) Be adequately documented.</p> <p><b>(Cause)</b> 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.</p> <p><b>(Effect)</b> Noncompliance with institutional policy ADM 07-303. Noncompliance with Federal Regulations and possible cost disallowance.</p> <p>4. <b>(Condition)</b> 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:</p> <ul style="list-style-type: none"> <li>For an MRI purchase, “Expense was initially charged to a central account for the Neuroscience Building expenses.”</li> </ul>	<p>other document that supports the original transaction and kept in a central location to support the Office of Grants &amp; Contracts’ approval.</p> <p>4. The Office of Grants &amp; Contracts accountants should ensure that cost transfers are justified with detailed explanations that support the necessity of the</p>	<p>expense</p> <ul style="list-style-type: none"> <li>comment box to enter justification of allowability for the project receiving the expense.</li> </ul> <p>Journal Entry Workflow are:</p> <ul style="list-style-type: none"> <li>Expenditure Correction Form</li> <li>Supporting documents of the expense</li> </ul> <p><b>Action Plan owner:</b> <i>Grants and Contracts</i></p> <p><b>Implementation Date:</b> 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.</p> <p><b>4. Management Action Plan:</b> AP Workflow process has a drop down menu as CC/PRJ:</p> <ul style="list-style-type: none"> <li>Funding not Available</li> <li>Pend Creation/Setup</li> <li>Pend Budget Revision</li> <li>Incorrect Acct Code</li> <li>Incorrect CC/PRJ</li> </ul>

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Observation Detail	Recommendation	Management Action Plan
<ul style="list-style-type: none"> <li>• “Expenditure Correction to move Vessel Research fee from 5100000566 into 5100000427 in the amount of \$600.00”.</li> <li>• “Change of PAF is being processed to add new sponsored project account at 1%.”</li> </ul> <p><b>(Criteria)</b>  <b>ADM 07-303 Cost Transfers for Sponsored Projects</b>  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.</p> <p><b>(Cause)</b>  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.</p> <p><b>(Effect)</b>  Noncompliance with institutional policy ADM 07-303.  Possible cost disallowance</p> <p>5. <b>(Condition)</b>  The volume of cost transfers processed for the audit period for non-payroll transactions totaled 742. We could not determine payroll cost transfers.</p>	<p>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.</p> <p>5. The Office of Grants and Contracts should implement an additional control to minimize the</p>	<p>The comment section will require justification of allowability, allocability, and reasonableness.  <b>Action Plan owner:</b>  <i>Grants and Contracts</i>  <b>Implementation Date:</b>  February 29, 2024: Train accountants in reviewing adequate support for transfer.</p> <p><b>5. Management Action Plan:</b>  Grants and Contracts will start to track cost transfer requests in order to review areas with high volume. This will also be included in the weekly metrics</p>

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<b>Observation Detail</b>	<b>Recommendation</b>	<b>Management Action Plan</b>
<p><b>(Criteria)</b>  <b>ADM 07-303 Cost Transfers for Sponsored Projects</b>            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,</p> <p><b>(Cause)</b>            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.</p> <p><b>(Effect)</b>            Noncompliance with institutional policy ADM 07-303.            Noncompliance with Federal Regulations and possible cost disallowance.</p>	<p>occurrences of cost transfers. For instance, requiring corrective action plans and/or periodic reviews of areas with a high volume of cost transfers.</p>	<p>shared with the SVPR.  <b>Action Plan owner:</b>  <i>Grants and Contracts</i>  <b>Implementation Date:</b>            February 15, 2024: Cost Transfer Log</p>
<p><b>Monitoring</b>            6. <b>(Condition)</b>            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.</p> <p>Additionally, there is no mechanism in place to identify cost transfers made. The Office of Grants &amp; Contracts could not</p>	<p>6. Since the Office of Grants and Contracts review and approval is the monitoring control, G&amp;C’s review and approval should include verifying that each transfer contains:</p> <ul style="list-style-type: none"> <li>• Sponsored</li> </ul>	<p><b>6. Management Action Plan:</b>            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).  <b>Action Plan owner:</b>  <i>Grants and Contracts</i></p>



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Observation Detail	Recommendation	Management Action Plan
<p>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.</p> <p><b>(Criteria)</b>  <b>ADM 07-303 Cost Transfers for Sponsored Projects</b>            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.</p> <p><b>2 CFR Part 200, Subpart E Cost Principles</b>            § 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.</p> <p><b>(Cause)</b>            Lack of knowledge, training and understanding of institutional policy and federal guidelines for the Office of Grants &amp; Contracts accountants.</p> <p><b>(Effect)</b>            Internal control weakness</p>	<p>Project Expenditure Correction Request Form,</p> <ul style="list-style-type: none"> <li>• Sufficient support documentation,</li> <li>• Adequate and complete justifications, and</li> <li>• Required approvals.</li> </ul> <p>For cost transfers over 90 days, corrective action plans should be developed and followed up.</p> <p>In addition, a mechanism should be developed to determine the population of cost transfers.</p>	<p><b>Implementation Date:</b>            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.</p>

**Cost Transfers Audit**

Observation Detail	Recommendation	Management Action Plan
<p><b>Training</b></p> <p>7. <b>(Condition)</b>            There is no cost transfers training available for PIs, PDs, and PMs. Lack of employee knowledge and training can lead to internal control failures.</p> <p><b>(Criteria)</b>  <b>2 CFR Part 200, Subpart E Cost Principles</b>            § 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).</p> <p><b>(Cause)</b>            Lack of knowledge, training and understanding of institutional policy and federal guidelines for Grants &amp; Contracts accountants</p> <p><b>(Effect)</b>            Internal control weakness            Noncompliance with Federal Regulations</p>	<p>7. 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.</p>	<p><b>7. Management Action Plan:</b>            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.</p> <p><b>Action Plan owner:</b>  <i>Grants and Contracts</i></p> <p><b>Implementation Date:</b>            April 30, 2024: Training Materials Completed            May 01 – June 30, 2024: Training Sessions with departmental support/reconcilers.</p>

## Cost Transfers Audit

### APPENDIX I

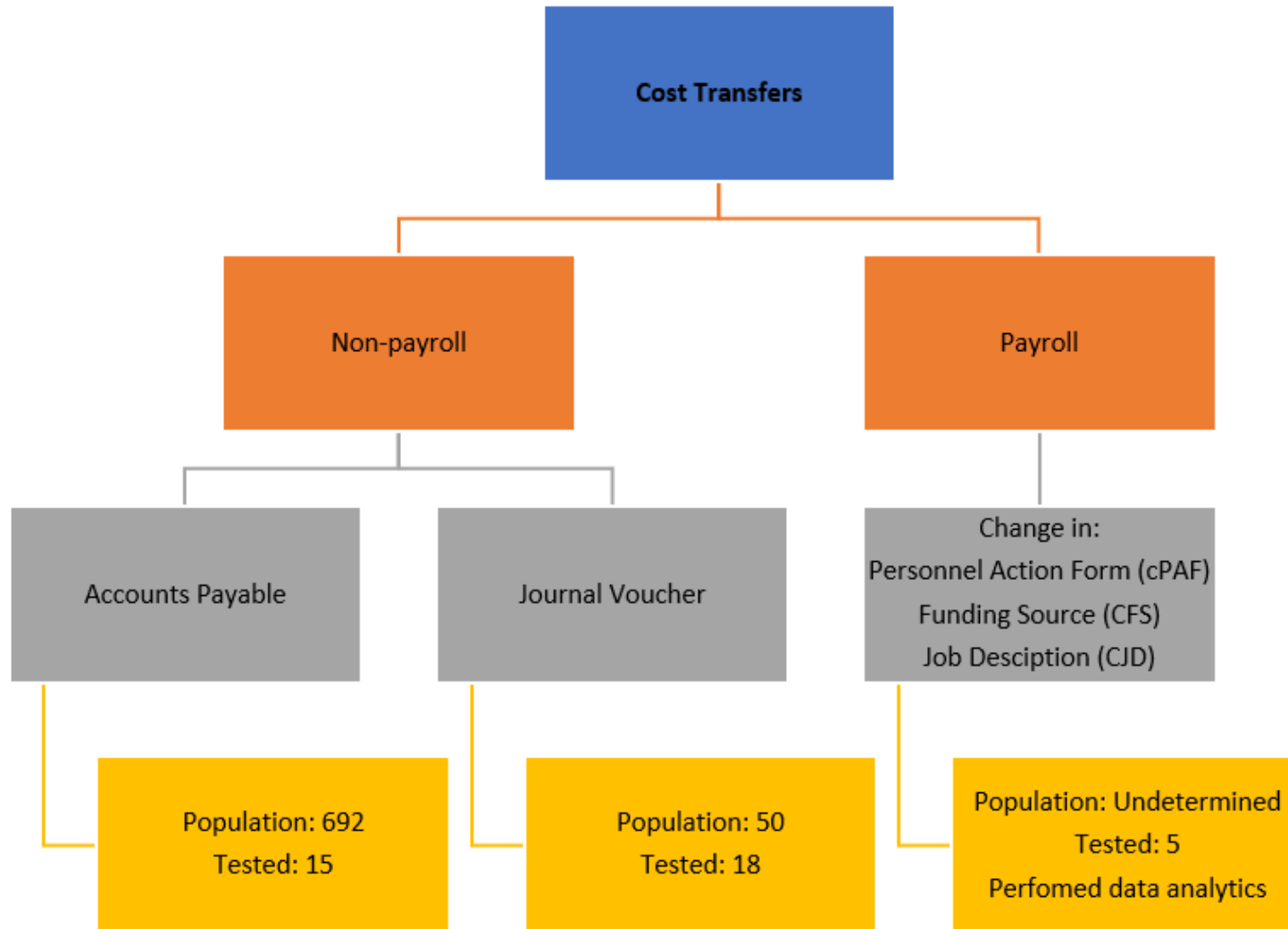
#### Risk Classifications and Definitions

<b>Priority</b>	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 <i>“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.”</i>
<b>High</b>	Risks are considered substantially undesirable and pose a significant level of exposure to UT Rio Grande Valley operations. Without appropriate controls, the risk will happen on a consistent basis. Immediate action is required by management in order to address the noted concern and reduce exposure to the organization.
<b>Medium</b>	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.
<b>Low</b>	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.

## Cost Transfers Audit

### APPENDIX II

#### Cost Transfers Process Flow



**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](#)

**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