As many of you are aware, recently an audit was conducted by Internal Audit regarding cost transfer journal entries.  The objective of the audit was to ensure cost transfers comply with applicable university, state and federal requirements.  A cost transfer is a transfer of expense to or from a speedtype by means of a journal entry in the Finance System.

Although the audit was specifically related to restricted projects, we need to improve our process around all journal entries and payroll expense transfers (PET).  Please review the guidance below regarding journal entries.  The Office of Grants and Contracts and Finance Office will be enforcing these guidelines over the coming months.

**Journal Entries**

When processing your journal entries, here are some tips to remember:

1. ***Why is Journal Necessary***

Ensure that journal entry descriptions include the cause of the error and how the expense is necessary to complete the scope of work of the speedtype that should be charged.  Without adequate journal entry descriptions, your sponsored project or finance office may not be able to determine whether the journal entry is allowable, allocable, reasonable, consistent, and timely, as required by A-21 for charging a grant.

1. ***Journal Entry Descriptions***

For all journal entries, the *“long description”* or “*Business Purpose*” of the journal entry in Finance System should include:

* What the JE is meant to do
* Why the entry is being made (the “because” rationale)
* Details of individual journal lines (speedtype, type of supplies, sponsor, etc.).  If you are moving an expense, please tell where the expense is moving from to allow reviewers to verify correct signs on the journal entry.
* If a JE is a Cost Transfer or Correcting Entry, be sure to include:
* The cause of the error
* How the expense is necessary to complete the scope of work of the speedtype charged (for restricted projects)
* Example:

Inadequate Description - *“To move charge to appropriate speedtype”*

Suggested Description - *“Speedtype 61003298 was charged in error when allocating expenses.  Expense transferred to appropriate funding source.”*

***3.    Timely***

Journal entries are timely (*not more than 90 days after the discovery of the error)*

***4.    Supporting Documentation***

Ensure that your supporting documentation to the journal entry is:

* Legible
* Clear as to how the support relates to the journal entry.  For example, display or explain how circled items relate to the journal entry.
* Defendable based on the expense allocation methodology used.  For example, when supplies are purchased in bulk and used by multiple speedtypes a common method to allocate the expense is based on FTE)
* Examples of documentation include:
* Spreadsheets (make sure it is large enough in size), emails, notes, and summaries of the error – all are important back-up documentation. In short, any document that prompted the transaction, was used as a basis for the transaction, or provided the amounts should be attached.
* To record a receivable – include a copy of the corresponding invoice.
* To transfer cash – include a copy of the m-Fin Operating Summary report to show there are resources available.
* To transfer an expense – include a copy of the m-Fin Financial Detail report showing the original transaction. Please circle the items in question. Please do not highlight since any highlighted information turns black when faxed.
* To journalize interdepartmental charges – include a copy of the signed IN forms.

***5.    Payroll Expense Transfers (PET)***

Points 1-3 above also apply to all PET.  This has been a comment in various audits that PET descriptions are inadequate.

If you have any questions regarding journal entries contact your Sponsored Project Post Award Accountant or the Finance Office.

**Cost Transfer Audit**

Below are the findings of the cost transfer audit:

* 1. ***Inadequate Journal Entry (JE) Descriptions***

In many cases the auditors could not determine, based on the JE descriptions and supporting documentation, why the expense transfer was necessary and why the expense is necessary to complete the scope of work of the sponsored project to which the expenses were transferred.

Here is an example of an insufficient journal description identified by Internal Audit:

*“To move lab supplies from one speedtype to the new project speedtype where they should’ve been reported.”*

This journal entry description does not provide an adequate explanation as to why the cost transfer was necessary.  A suggested JE description to better explain the situation would have been:

*“To transfer lab supplies from ST63022723 NIH training grant to ST63033345. Lab supplies were required by ST63033345 in order to complete INUITRO studies for the grant.  Expenses were originally  booked wrong due to a miscommunication in lab order request.”*

Example #2:

Inadequate Description - *“To redistribute expenses in order to close out and balance speedtypes”*

Suggested Description - *“To Transfer expenses from Adolescent Research (ST 6306789) to Adolescent Research (new segment and new ST 63010293).  Expenses were incurred during budget period of new segment, but purchase was not updated to new speedtype.”*

Example #3:

Inadequate Description - *“To transfer income/expenses from HRSA grant”*

Suggested Description - *“To transfer salary expenses from HRSA sponsored project (ST 63054321) that is over budget due to personnel costs being greater than planned.  Expenses  transferred to an allowable unrestricted departmental funding source (ST62612345).”*

Inadequate journal entry descriptions lead to audit questions such as:

* Is the department just trying to use up funds?
* Does this journal entry have a legitimate purpose or is the department trying to cover up fraud?
* Is the expense truly related to this project?
* As part of extracting journal entries to test, auditors will frequently search for key words such as “plug” or “net to zero”.  Your description could raise a red flag to ensure being tested in an audit.
  1. ***Untimely Cost Transfers***

The auditors noted one instance in their sample where a cost transfer was not completed in a timely manner.  The need for a cost transfer was first documented by a department in June 2009 but the actual transfer did not occur until January 2011.  Federal and campus policies require cost transfers to *“*happen immediately on the discovery of an error or as soon as possible, but not more than 90 days after the discovery of the error.”Untimely cost transfers could be disallowed and can have consequences on the sponsored project or speedtype closeout processes.  Untimely cost transfers also raise the question of legitimacy of the explanation.  In other words, is the department just grasping at straws to try to plug holes due to inefficient recordkeeping?

* 1. ***Incomplete, Insufficient or Illegible Supporting Documentation***

The auditors also noted instances of inadequate supporting documentation that included:

* An illegible report
* Worksheets that did not indicate how the dollar amount transferred was determined
* Documentation that did not relate to the cost transfer

Although these examples were based on Sponsored project cost transfers, these same guidelines should be followed when completing any journal entry.  Additional details specifically related to sponsored project journal entries please see the August 16th training at <http://www.ucdenver.edu/academics/research/AboutUs/GrantsContractsOffice/training-documentation/training/Pages/BrownBagSessions.aspx>