



FEB 27 2006

Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

Report Number: A-01-05-01504

Ms. Sharon Harpel
Director, Research Department and Cancer Center
Roger Williams Hospital
825 Chalkstone Avenue
Providence, RI 02908-4325

Dear Ms. Harpel:

Enclosed are two copies of the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), report entitled "Review of Subaward Costs Claimed by Roger Williams Hospital on NIH Grant Number 5 P01 HL56920-05 from February 1, 2001, through August 31, 2002." A copy of this report will be forwarded to the action official noted on the next page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the department chooses to exercise. (See 45 CFR part 5.)

If you have any questions or comments about this report, please do not hesitate to contact me at (617) 565-2689 or through e-mail at Michael.Armstrong@oig.hhs.gov. To facilitate identification, please refer to report number A-01-05-01504 in all correspondence.

Sincerely yours,

A handwritten signature in cursive script that reads "Michael J. Armstrong".

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Ms. Lorraine Trexler
Chief, Special Reviews Branch
Division of Financial Advisory Services
Office of Acquisition Management and Policy
National Institutes of Health
6100 Executive Blvd. Room 6B05
Rockville, Maryland 20892

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF SUBAWARD COSTS
CLAIMED BY
ROGER WILLIAMS HOSPITAL ON
NIH GRANT NUMBER
5 P01 HL56920-05 FROM
FEBRUARY 1, 2001, THROUGH
AUGUST 31, 2002**



**Daniel R. Levinson
Inspector General**

**February 2006
A-01-05-01504**

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

Roger Williams Hospital (the Hospital) is a public, not-for-profit institution located in Providence, Rhode Island. The Hospital and five other organizations together form the Roger Williams Medical Center.

The National Institutes of Health's (NIH's) National Heart, Lung, and Blood Institute awarded grant number 5 P01 HL 56920-05, entitled "Hematopoietic Stem Cell Growth and Engraftment," to the University of Massachusetts Medical School (UMMS) for the period September 1, 1996, through August 31, 2002. Of the total award of \$5.5 million, \$244,264 (4.4%) was for a subrecipient grant awarded to Roger Williams Hospital. Our review covered the subgrant budget period from February 1, 2001, through August 31, 2002. The Hospital's final invoice, dated April 29, 2003, totaled \$252,915.

OBJECTIVE

Our objective was to determine whether the Hospital claimed allowable costs under the terms and conditions of the subgrant and applicable Federal regulations.

SUMMARY OF FINDINGS

From February 1, 2001, through August 31, 2002, the Hospital claimed \$55,746 in costs that did not comply with Federal regulations and the terms of the subgrant. Of this amount,

- \$53,655 was in unallowable cost transfers and related fringe benefits and indirect costs, and
- \$2,091 was in unsupported animal care charges and related indirect costs.

The Hospital lacked established procedures for cost transfers and adequate procedures to ensure that direct charges for animal care were properly documented. As a result, we have less than adequate assurance that the subgrant funds have been properly accounted for.

RECOMMENDATIONS

We recommend that the Hospital:

- comply with Federal requirements for ensuring that cost transfers are adequately explained and documented and
- revise its procedures to ensure that animal care charges can be identified to a specific project or account.

Because the Hospital received its funds through a subgrant from UMMS rather than directly from NIH, we will recommend under separate cover that UMMS reimburse NIH for unallowable subgrant costs totaling \$55,746.

ROGER WILLIAMS HOSPITAL'S COMMENTS

In its written comments, the Hospital stated that it has initiated actions to comply with the report's recommendations. The Hospital indicated that the audit served as an educational opportunity and said that it has used the audit results to further refine its policies and procedures. The University's comments are summarized below and included in their entirety in the Appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

The Hospital did not provide any additional evidence to dispute our findings. Accordingly, we maintain that \$55,746 that the Hospital claimed as subaward costs was not supportable.

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 ROGER WILLIAMS HOSPITAL’S COMMENTS

INTRODUCTION

BACKGROUND

Roger Williams Hospital (the Hospital) is a public, not-for-profit institution located in Providence, Rhode Island. The Hospital and five other organizations together form the Roger Williams Medical Center.

The National Institutes of Health's (NIH's) National Heart, Lung, and Blood Institute awarded grant number 5 P01 HL 56920-05, entitled "Hematopoietic Stem Cell Growth and Engraftment," to the University of Massachusetts Medical School (UMMS) for the period September 1, 1996, through August 31, 2002. Of the total award of \$5.5 million, \$244,264 (4.4%) was for a subrecipient grant awarded to Roger Williams Hospital. Our review covered the subgrant budget period from February 1, 2001, through August 31, 2002. The Hospital's final invoice, dated April 29, 2003, totaled \$252,915.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Hospital claimed allowable costs under the terms and conditions of the subgrant and applicable Federal regulations.

Scope

Our review covered the \$252,915 in subgrant costs that the Hospital claimed from February 1, 2001, through August 31, 2002. We limited our review of internal controls to the process that the Hospital used to claim subgrant costs for reimbursement.

We performed our fieldwork between May and December 2005 at Roger Williams Hospital in Providence, Rhode Island.

Methodology

We used applicable Federal regulations, subgrant terms and conditions, and Hospital policies and procedures to determine if amounts claimed met reimbursement requirements. In addition, we obtained supporting ledger records, payroll reports, personnel records, subgrant invoices, and supporting documents to perform audit tests of various cost categories.

During our review, we:

- reviewed subgrant and budget award documents for pertinent terms and conditions;
- reconciled costs claimed by the Hospital to accounting records;

- reviewed payroll distribution charges and reconciled salary and wage charges with supporting personnel action forms and related time and effort reports;
- reviewed proposed and actual level of effort by key employees for differences;
- reviewed purchasing procedures and selected nonlabor direct charges (i.e., for materials, supplies, and animal care) for testing to source documents; and
- ascertained the appropriateness of fringe benefit and indirect cost rates that the Hospital used.

We conducted our review in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

From February 1, 2001, through August 31, 2002, the Hospital claimed \$55,746 in costs that did not comply with Federal regulations and the terms of the subgrant. Of this amount,

- \$53,655 was in unallowable cost transfers and related fringe benefits and indirect costs, and
- \$2,091 was in unsupported animal care charges and related indirect costs.

The Hospital lacked established procedures for cost transfers and adequate procedures to ensure that direct charges for animal care were properly documented. As a result, we have less than adequate assurance that the subgrant funds have been properly accounted for.

COST TRANSFER CHARGES

Federal Requirements Governing Cost Transfers

NIH Grants Policy Statement (03/01), part II, subpart A, for cost transfers states:

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. An explanation merely stating that the transfer was made “to correct error” or “to transfer to correct project” is not sufficient.

Title 45 CFR, part 74, Appendix E, section III.D.2, states that:

Any costs allocable to a particular research agreement under the standards provided in these principles may not be shifted to other research agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the research agreement, or for other reasons of convenience.

Unallowable Cost Transfers

The Hospital transferred \$53,655 to this grant that was not allowable: \$32,420 was in nonlabor costs and \$21,235 in salary costs (see Table).

Table: Unallowable Cost Transfers

Source	Number	Direct Costs	Fringe & Indirect Costs	Direct, Fringe, & Indirect Costs
Nonlabor Transfers				
From Internal Funds	10	\$15,335	\$8,434	\$23,769
From Other Projects	4	5,581	3,070	8,651
Subtotal	14	20,916	11,504	32,420
Salary Transfers	3	11,048	10,187	21,235
TOTAL	17			\$53,655

Nonlabor Transfers

The 14 unallowable nonlabor cost transfers that the Hospital made during the subgrant performance period included 10 transfers that were originally charged to internal funds. The remaining four cost transfers were originally charged to another sponsored project and resulted in claimed costs that exceeded the subgrant agreement.

- Transfers from internal fund accounts – Ten of the 14 nonlabor cost transfers totaling \$23,770 were originally charged to Hospital internal fund accounts. These cost transfers consisted of animal care, materials, supplies, and radiation training. However, the transfers were not adequately supported by a specific, clear, and detailed explanation with related documentation as required.
- Transfers from another sponsored research project – Four of the 14 cost transfers totaling \$8,651 were for animal purchases, animal care, and materials that were originally charged to another sponsored research project. The Hospital provided neither adequate support to explain the cost transfers nor detailed documentation. Moreover, the amount transferred exceeded the subgrant award authorization of \$244,264. In total, the Hospital claimed subgrant costs totaling \$252,915, or \$8,651 in excess of the subgrant award amount.

Salary Transfers

Three researchers' salaries totaling \$21,235 were transferred from other projects. These transfers were initiated by verbal requests and were not supported by detailed explanation and supporting documentation as required. Our review of two of the researchers' time records showed that, during the time in question, no charges were identified to the subgrant and 100 percent their efforts were charged to other sponsored projects. The third researcher's time record initially showed only a 50 percent effort to the subgrant, but the time record was changed during our review (4 years after the fact, in May 2005) to reflect 100 percent of effort to the subgrant.

Inadequate Support for Cost Transfers

For both nonlabor and salary cost transfers, the Hospital did not comply with NIH requirements for ensuring that the transfers were adequately supported by a full explanation and proper documentation. Without adequate explanation and documentation, we were unable to determine if the cost transfers were allowable as direct charges to the subgrant. As a result, we have questioned \$53,655 that the Hospital transferred to this subgrant (\$32,420 in nonlabor costs and \$21,235 in salary costs).

These unallowable charges occurred because the Hospital did not have detailed procedures for cost transfers. In March 2005, the Hospital issued a policy on cost transfers that reflects the NIH requirements.

ANIMAL CARE CHARGES

NIH Policy Statement, part II, on direct costs states, "A direct cost is any cost that can be specifically identified with a particular project, program, or activity or that can be directly assigned to such activities relatively easily and with a high degree of accuracy."

The Hospital charged the subgrant for the cost of animal (mice) care that could not be traced to the specific animals purchased under this subgrant. Monthly invoices for providing animal care services are based on per diem fees by species and by cage count. Staff of the animal care facility prepare invoices monthly and distribute them to the principal investigators, who assign project or account numbers to the invoices. However, the principal investigator of this subgrant did not maintain the necessary supporting documentation to identify the animal care charges to this specific project.

As a result, the Hospital charged the subgrant for animal care services totaling \$2,091 (\$1,349 for animal care services and \$742 for related indirect costs) without adequate support.

RECOMMENDATIONS

We recommend that the Hospital:

- comply with Federal requirements for ensuring that cost transfers are adequately explained and documented and
- revise its procedures to ensure that animal care charges can be identified to a specific project or account.

Because the Hospital received its funds through a subgrant from UMMS rather than directly from NIH, we will recommend under separate cover that UMMS reimburse NIH for unallowable subgrant costs totaling \$55,746.

ROGER WILLIAMS HOSPITAL'S COMMENTS

In its February 6, 2006, response to our draft report, the Hospital stated that it had initiated actions to comply with our recommendations. The University's comments are summarized below and included in their entirety in the Appendix.

Cost Transfer Charges

Nonlabor Transfers

Transfers from internal fund accounts: The Hospital stated that the subaward performance period began on February 1, 2001, but UMMS did not issue the Memorandum of Agreement until July 2001. In the interim, the hospital assigned charges to an internal account. It explained that it had transferred the appropriate charges to the newly established account once the subaward was executed and that these transfers accounted for 10 of the 14 nonlabor cost transfers. The remaining four were transferred from other sponsored research projects, as discussed below.

The Hospital asserted that its current cost transfer procedures are based on the NIH Grants Policy Statement. In June 2005, the Hospital established a Cost Transfer/Journal Entry Request Form to facilitate compliance with the policy and the Hospital's procedures, which require adequate explanation and documentation of nonlabor costs transfers. The Hospital included a copy of this revised transfer approval form in its response.

Transfers from other sponsored research projects: In response to our finding that the Hospital had claimed costs totaling \$8,651 in excess of the subgrant award amount, the Hospital said that it had received e-mail notification from the UMMS Principal Investigator with a copy to its Financial Services stating that UMMS had identified additional funds that should have been included in the subaward. The Hospital stated that it had used this notification as authorization for spending these funds to carry out research. However, a modification to the subaward was never generated.

Salary Transfers

The Hospital stated that it has developed a Payroll Transfer Form that meets NIH guidelines for cost transfers.

Animal Care Charges

The Hospital stated that it has developed a cage card system that allows it to more accurately track specific animals and provides appropriate back-up for charging animal acquisition and care costs.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

The Hospital did not provide any additional evidence to dispute our findings. Accordingly, we maintain that \$55,746 that the Hospital claimed as subaward costs was not supportable.

Cost Transfer Charges

Nonlabor Transfers

Transfers from internal fund accounts: In its response, the Hospital did not provide additional documentation to demonstrate that the questioned cost transfers totaling \$23,769 could be identified to the subaward. In addition, the Hospital does not have written procedures to ensure that costs for late awards initially charged to its internal fund are properly accumulated and identified.

Transfers from another sponsored research project: An e-mail from UMMS dated April 9, 2003, well after the end of the performance period on August 31, 2002, notified the Hospital that \$8,655 in additional funding was available. Subsequently, the Hospital claimed an additional \$8,651 in funds for this subaward. These additional costs were identified to costs transferred from another sponsored project without explanation. These transferred costs exceeded the total of \$244,264 authorized by the subaward.

Salary Transfers

The Hospital did not dispute our finding that the transfer of three researchers' salaries totaling \$21,235 from other projects lacked adequate documentation.

Animal Care Charges

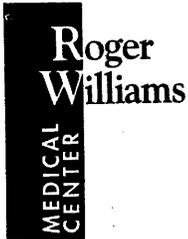
The Hospital did not dispute our finding that animal care services totaling \$2,091 are not supportable costs covered by this subaward. Accordingly, the Hospital has revised its procedures to improve accountability for animal care charges.

In summary, nonlabor costs of \$32,420 (\$23,769 + \$8,651), labor costs of \$21,235, and animal care charges of \$2,091 are not supportable costs covered by the subaward. Thus we maintain our recommendation that the Hospital comply with Federal requirements for ensuring that cost transfers are adequately explained and documented.

OTHER MATTERS

The principal investigator's salary during the grant period exceeded NIH's annual salary cap of \$161,200, but this excess salary was not charged to the NIH subgrant. For purposes of determining the indirect rate, the excess salary should properly be treated as a direct cost and be included in the Hospital's modified total direct cost base in establishing negotiated indirect rates with the HHS Division of Cost Allocation. Although we requested that the Hospital provide support for its treatment of excess salary for its most recent indirect cost agreement, the Hospital was unable to do so.

APPENDIX



Roger
Williams
Hospital

Office of Research
Administration

APPENDIX

Page 1 of 6

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Rhode Island 02908-4735
(401) 456-2563
(401) 456-5369 FAX

Sharon Harpel
Director

February 6, 2006

Michael J. Armstrong
Regional Inspector General
for Audit Services
Office of Inspector General
Office of Audit Services
Room 2425
Region I
John F. Kennedy Federal Building
Boston, MA 02203

RE: Report Number: A-01-05-01504

Dear Mr. Armstrong,

We are in receipt of the U.S. Department of Health and Human Services, Office of Inspector General (OIG) draft report entitled, "Review of Subaward Costs Claimed by Roger Williams Hospital on NIH Grant Number 5 P01 HL 56920-05 From February 1, 2001, Through August 31, 2002." This letter shall serve as our formal response to the draft report.

On behalf of Roger Williams Hospital, I would like to thank you and your staff including George Nedder, Daniel Lew and Fran Dynan, for the professional manner in which this review was conducted. The administrative staff of the Research Department as well as leadership have approached this audit as an educational opportunity and have used what we've learned during this examination to refine our policies and procedures and have implemented changes throughout the process. We appreciate the opportunity to respond to this report.

Unallowable Cost Transfers: Nonlabor Transfers

The findings state that, "The Hospital lacked established procedures for cost transfers and adequate procedures to ensure that direct charges for animal care were properly documented."

The Principal Investigator relocated to the Hospital from UMMS on January 1, 2001. The subaward period of performance began on February 1, 2001 but the Memorandum of Agreement was not issued by UMMS until July, 2001. In the interim we assigned charges to an internal (hospital funded) account. Once the subaward was executed and we established a unique cost center for this grant we cost-transferred the appropriate charges to the newly established account. This accounted for 10 of the 14 nonlabor cost transfers.



Our procedures are based on the NIH Grants Policy Statement (GPS) entitled, "Cost Transfers, Overruns and Accelerated and Delayed Expenditures" (see <http://grants.nih.gov/grants/policy/nihgps/>). From the GPS: "Cost transfers to NIH grants by grantees, consortium participants, or contractors under grants that represent corrections of clerical or bookkeeping errors should be accomplished within 90 days of when the error was discovered."

Our policy states, All **Cost Transfers** must be well documented and signed by the Principal Investigator. From the GPS: "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. 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.

We have established a Cost Transfer/Journal Entry Request Form, a copy of which is enclosed, which facilitates compliance with the policy.

The report asserts that the Hospital claimed subgrant costs totaling \$8,651 in excess of the subgrant award amount. We received an email notification from the UMMS Principal Investigator with a copy to their Financial Services stating that they had identified additional funds, which should have been included in our subaward. We used this notification as authorization to expend these funds in carrying out the research. A modification to the subaward was never generated.

Salary Transfers

We have developed a Payroll Transfer Form, a copy of which is included that meets NIH guidelines for cost transfers.

Animal Care Charges

We have developed a cage card system that allows us to more accurately track specific animals and provides appropriate back-up for charging animal acquisition and care costs.

Response to Recommendations

The draft report recommends that the Hospital:

- comply with Federal requirements for ensuring that cost transfers are adequately explained and documented and
- Revise its procedures to ensure that animal care charges can be identified to a specific project for account.

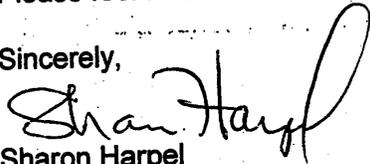
As described above we believe that we have put adequate controls in place to meet the standards set forth in the Federal requirements for both cost transfers and charging of animal-related expenses to specific projects.

Roger Williams Hospital Research Administration is committed to working productively with principal investigators and research staff to ensure we meet granting agency requirements and to serve the research mission of the Hospital. To this end, we have developed a series of workshops entitled, Tools of the Trade. Workshops include such topics as Grantsmanship (pre- and post-award), working with human participants, working with animals and research compliance. We support and encourage ongoing education for our research administration staff. In the last year we have sent representatives to national meetings of the National Council of University Research Administrators (NCURA) and the Society of Research Administrators (SRA). We have also had attendees at NCURA's Fundamentals of Research Administration as well as NCURA's Financial Research Administrator's annual meeting. We attend the Public Responsibility in Medicine and Research (PRIM&R) meeting annually and belong to a local IRB Administrator's network. This is a non-exclusive list that is included to demonstrate our commitment to continuous improvement.

We believe we have addressed all the findings and recommendations raised as a result of the audit. We will continue to stay abreast of the regulations and make policy and procedural change as appropriate.

Please feel free to contact me if you require further information. Thank you.

Sincerely,



Sharon Harpel

Director, Research Department and Cancer Center

Attachments

**Roger Williams Medical Center Office of Research Administration
New Position Request Form**

Please complete ONE form per employee.

New Hire _____ **Date:** _____

Position: _____ **Department:** _____

Hours per pay period: _____ **Person will report to:** _____

Grant Number:	Grant name(s):	Please specify percentage(s):
Justification:		

Grant Number:	Grant name(s):	Please specify percentage(s):
Justification:		

Approval Signatures

Prepared By: _____ **Date:** _____
Principal Investigator: _____ **Date:** _____
Research Director: _____ **Date:** _____

PLEASE ATTACH JOB DESCRIPTION

**Roger Williams Medical Center Office of Research Administration
Payroll Transfer Request Form**

Please use ONE form per employee. Complete one line for each cost center, including each account number to which the employee is charged or will be charged.

Employee Name: _____ Date: _____

Pay Period Beginning Date	Current Account(s) Charged	New Account to be Charged	% of Time (Hrs /pp) for each account	Justification *

***Justification of Redistribution:** Payroll transfers MUST be supported by a full explanation of the reason for the transfer, and if applicable, must match the Time & Effort Report. An explanation which merely states that the transfer was made "to correct an error" or "to transfer to correct project" are not sufficient. Transfers of costs from one budget period to the next solely to cover cost overruns are not allowable. (Per NIH Grants Policy Statement titled Cost Transfers, Overruns, and Accelerated and Delayed Expenditures)

Approval Signatures

Prepared By: _____ Date: _____

Principal Investigator: _____ Date: _____

Research Director: _____ Date: _____

FOR FEDERAL ACCOUNTS ONLY, ALL TRANSFERS MUST BE MADE BY THE TIME OF THE TIME & EFFORT ATTESTATION.

NO OTHER RETROACTIVE CHANGES WILL BE ALLOWED

**Roger Williams Medical Center Office of Research Administration
Cost Transfer/ Journal Entry Request Form**

Original Charge Date	Original Charge		Transaction Description	Vendor Name / PO	Amount of Charge	Account to be Charged	
	Acct#	Subaccount				Acct#	Subaccount

Justification of Redistribution: Cost transfers MUST be supported by documentation that contains a full explanation of how the error occurred and a certification of the correctness of the charge by the ORA. An explanation which merely states that the transfer was made "to correct an error" or "to transfer to correct project" are not sufficient. Transfers of costs from one budget period to the next solely to cover cost overruns are not allowable.
(Per NIH Grants Policy Statement titled Cost Transfers, Overruns, and Accelerated and Delayed Expenditures)

You MUST include a copy of the Detailed Account Listing highlighting the item you wish to transfer.

Prepared By: _____ Date: _____

Principal Investigator: _____ Date: _____

Research Director: _____ Date: _____

We will return an approved copy back to you.

ALL TRANSFERS MUST BE MADE WITHIN 90 DAYS OF THE DATE OF DISCOVERY OF THE ERROR.
Per NIH Grants Policy Statement
Revised June 2005