

Cost Transfer Guidance

Introduction

Expenditures should be charged to the appropriate sponsored project when first incurred. The university recognizes that occasionally errors, university policies, and unforeseen circumstances may prevent this. A cost transfer moves an expense from one index to another. When the index receiving the expense is a sponsored project (grant, cost share, or program income) special rules apply.

The purpose of this guidance is to document the university's internal controls to ensure cost transfers to sponsored projects are:

- Requested in a timely manner
- Adequately documented
- Sufficiently reviewed and approved and
- In compliance with federal, agency, and university regulations

All grants, contracts, cooperative agreements, traineeships, etc. are subject to this cost transfer guidance. Privately funded awards and fixed price contracts may have greater flexibility at the approval stage but must follow the standard process when requests are initiated.

This guidance may not cover all instances and you are urged to contact Grants Accounting if you are not sure of the appropriateness of a requested cost transfer.

Cost Transfers Defined

The following are examples of cost transfers (salary and non-salary):

- Transfer of expenditure from an unrestricted index to a sponsored project grant, cost share or program income index.
- Transfer of expenditure between two or more different sponsored projects.

The following are not considered cost transfers but may still be requested using the Cost Transfer and Salary Redistribution workflows when the original allocation needs to be revised:

- Allocating charges between index numbers associated with a single sponsored project.
- Moving expenses between account codes within a single index.
- Moving charges from sponsored project indexes to unrestricted or non-sponsored sources.

Expectations

Proper management of funds is essential to uphold the fiduciary responsibilities of the university.

It is expected that

Principal Investigator (PI) or their delegate will review the financial activity on their sponsored projects monthly and promptly correct transactions that are incorrectly recorded.

Departmental support personnel will prepare and submit cost transfer requests with the knowledge and approval of the PI.

Department and Budget Reviewers will review cost transfers in a timely manner and ensure that all requests comply with this guidance.

Any penalties, disallowance, or loss of funding caused by non-compliance with this guidance will be assessed against the department in violation.

Reasons for Concern

Audit Risk

As required by federal regulations, the University retains external auditors to conduct an annual review of federal (grant and contract) expenditures. Any time a transfer is initiated, it brings up the question whether the initial transaction was handled properly. Auditors test whether individual transfers are appropriate and if the university's internal controls for managing transfers are enough to safeguard against fraud, waste, or abuse. High risk transfers draw increased scrutiny.

High risk transfers include:

- Frequent transfers
- Late transfers (over 90 days old)
- Inadequately explained transfers
- Transfers between projects (especially when both are federally funded)
- Transfers involving projects with unexpended balances or deficits

Special Note: Moving expenses between federally sponsored awards is generally not allowed unless there are extenuating circumstances. If the justification does not meet the extenuating circumstance criteria, the expense(s) will be moved to the responsible department.

HHS and NIH Policy Statements

Some sponsors have policy statements concerning cost transfers. Agencies that fall under the Department of Health and Human Services (HHS) such as...

- Agency for Healthcare Research and Quality (AHRQ)
- Centers for Disease Control and Prevention (CDC)
- Food and Drug Administration (FDA)
- Health Resources and Services Administration (HRSA)
- Substance Abuse and Mental Health Services Administration (SAMHSA)
- Administration on Aging (AoA)

...are subject to the HHS Grants Policy Statement¹, “Permissible cost transfers should be made promptly after the error occurs **but no later than 90 days following occurrence** unless a longer period is approved in advance by the Grants Management Office.”

The National Institute of Health (NIH) also falls under HHS but has its own Policy Statement² regarding transfers. “Cost transfers to NIH grants by recipients, 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. 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 recipient, 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.”

It is extremely important to monitor expenditures on sponsored projects from HHS on a monthly basis to ensure transfers are requested before the 90-day limit expires. **Requests to move expenditures to sponsored projects funded by any HHS division, including NIH initiated after the 90-day period has elapsed will rarely be approved.** Disallowed expenditures will be transferred to the responsible department.

¹ HHS Grants Policy Statement (January 1, 2007)

² NIH Policy Statement (October 2019)

Cost Transfer Requirements

Cost transfers should be prepared as soon as the need for the transfer is identified. Cost transfer requests for salary and non-salary charges should be submitted using the workflows in Flashline.

- Cost Transfer Workflow (CTW)
- Salary Redistribution Workflow (SRW)

Workflow requests will automatically route to the Principal Investigator as well as the Department and Budget level approvers.

Timeliness

It is expected that all transfer will be requested within 90 days of the original charge. The 90-day time period begins the first day of the month following the date the charge is initially recorded in Banner. This transfer period runs until the transfer request is initiated in the appropriate workflow. It is expected that the initiating department will monitor the progress of their transfer requests through the workflow to ensure they are approved in a timely manner.

Please note, no time limit exists for removing expenditures from a sponsored project. If inappropriate expenditures are discovered on sponsored projects, they must be moved to a non-sponsored departmental index without regard to time limits.

Adequate Documentation

According to federal regulations³, “An explanation which merely states that the transfer was made ‘to correct clerical error’ or ‘to transfer to correct project’ is not sufficient.” All cost transfers for salary or non-salary charges must have a justification that clearly explains the nature of the expense and why it is being moved. A reasonable justification must contain:

1. A brief description of the items/services/travel purchased.
2. An explanation of how the items/services/travel provided benefit to the sponsored project.
3. The method used to determine the amount charged to each index if the cost is split between multiple indexes.

Cost transfers that are made only for the intention of spending down sponsored project funds or as a matter of convenience are not allowed. Expenses transferred on to a sponsored project account are very prone to audit and must be clearly supported. Transferring costs because of a deficit or other reasons of convenience is not appropriate. Any shared costs should be pro-rated among the applicable accounts at

³ 2 CFR 200, Section E (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (December 2013))

the time the costs are incurred to the maximum extent possible. Charging costs to one sponsored project with the intention of repaying that sponsored project when an award is received is also not appropriate.

Late Transfers

Cost transfers of salary or non-salary charges received after the 90-day period are considered late and will only be approved for extenuating circumstances. Additional justification will be necessary to demonstrate an extremely strong case as to why they should be approved. The justification for late transfers must address same points as listed above as well as

4. A thorough explanation for the delay in detecting and requesting the cost transfer.
5. Identify what corrective action has been taken to prevent such delays in the future.

Late transfers require additional approvals⁴.

Examples of Allowable Extenuating Circumstances

- Failure of a timely response in another unit when supporting documentation has been properly submitted, e.g., a properly submitted Employee Transaction Workflow (ETW) that was approved but not fully completed as requested. Supporting documentation will be required.
- Transfer of expenditures to a sponsored project where the appropriate index could not be activated on a timely basis before the begin date of the project. Research and Sponsored Programs recommends completing an Advance Costs Fund Request (found on the Institutional Prior Approval Form) so that a grant index can be established to capture expenditures.
- Late issuance of an award continuation after the start of the budget year or other period of performance. Supporting documentation is required.

Examples of Unallowable Allowable Circumstances for Late Transfers

- Absence of the PI, designee, or administrative support personnel (sabbatical, vacation, medical leave, etc.)
- Shortage of staff
- Volume of work
- Lack of experience or training

⁴ At minimum, late transfer requests will be reviewed by a Senior Grants Accountant or Manager of Grants Accounting. In some cases, approval may be elevated to include the Controller or VP of Finance.

The responsible department is obligated to ensure the availability of qualified staff to administer and exercise stewardship over sponsored projects in accordance with the sponsor's policies and regulations, including those relating to regular monitoring of expenditures and timely correction of errors and reallocation of expenses.

Special Note: At no time should sponsored projects be used as a holding spot for expenses that will subsequently be transferred elsewhere.

Examples of Acceptable Justifications

The following examples provide additional information regarding questionable justifications and possible remedies for transfers that are not late. Late transfers would require additional justification.

Questionable Justification- “To transfer overage to related project”

- Reason Justification is Questionable – Transfer of overages from one project to another is not permitted.
- Potential Remedy – If projects are related identify which costs are to be shared and clearly indicate how the amount to be shared was determined.
- Acceptable Justification – To transfer supplies used on related projects. Supplies should be shared equally on both projects therefore 50% of the cost of the items are being transferred.

Questionable Justification – “To correct expenditures charged incorrectly due to clerical error”

- Reason Justification is Questionable – There is insufficient explanation of why and how the clerical error occurred. In general, this explanation is only adequate if a transposition error occurred. If a transposition error did occur, it should be stated in the justification.
- Potential Remedy – Explain the nature of the clerical error.
- Acceptable Justification – The technician who ordered supplies used the index number of a project which was closed. She has been instructed to use the new number. I've also asked that all supply orders be reviewed and approved by the department administrator to prevent this from occurring again.

Questionable Justification – “To transfer unallowable maintenance costs from Dr. Jemison's STEM Experiences project to her related NIH project”

- Reason Justification is Questionable – Determining a charge is unallowable on one project is not a sufficient reason for charging another project. The expense must have been incurred to benefit the project being charged for the charge to be allowable.

- Potential Remedy – The maintenance cost can only be charged to a sponsored project index that benefited from the expense. If none are available, the cost must be transferred to a non-sponsored index.
- Acceptable Justification – To transfer ½ of the maintenance charges to Dr. Jenison’s NIH project on which the equipment was used. The other ½ is being transferred to her startup funds.

Questionable Justification – “To charge the appropriate index”

- Reason Justification is Questionable – This does not adequately explain why the wrong index was charged. Why is the index now selected more appropriate? How was the amount to be transferred determined?
- Potential Remedy – Explain why the index being charged is appropriate and how the amount being transferred was determined.
- Acceptable Justification – To transfer 100% of the graduate student’s salary for the indicated months to the project where his effort was spent. The administrator was not informed that the GA changed projects.

Questionable Justification – “To transfer \$500 of supply costs to the appropriate grant”

- Reason Justification is Questionable– The amount transferred and the reason for the transfer are not adequately justified. Are the projects related? Why, other than clerical error, wasn’t the order charged to the proper index?
- Potential Remedy - Explain how the amount was determined and why the index being debited should be charged.
- Acceptable Justification – To transfer 50% of supplies to Dr. Carson’s NIH accounting unit. Supplies are to be shared equally between the two related projects.

Questionable Justification – “To transfer \$500 of supply costs to the appropriate index because the grant was not set up when the supplies were ordered”

- Reason Justification is Questionable – An Institutional Prior Approval Form for Sponsored Programs for an “Advance Cost Fund Request” can be used to request a grant index if an award is anticipated. Charges can then be posted to the grant index without a fully executed agreement on file and can eliminate the need for after-the-fact transfers.
- Potential Remedy – Follow the instructions for completing the [Institutional Prior Approval Form](#).