COST TRANSFER POLICY FOR FEDERALLY SPONSORED PROJECTS

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PURPOSE

In certain circumstances, a charge may be posted to an incorrect cost center. When this happens, a correcting journal entry is required to move the cost to the correct cost center. This policy explains how the need for a cost transfer arises, the requirements of a cost transfer journal entry, and the method for processing cost transfers through the accounting systems.

I. INTRODUCTION

Definition

A cost transfer is a transfer of expenditure from one project to another project. When the project receiving the charge is a sponsored grant or contract, special rules apply as discussed later in this policy.

In some instances, a cost transfer is unavoidable. The purpose of this cost transfer policy is to provide information to principal investigators, department administrators, project managers, Chairs, and Deans concerning government cost transfer policies. Cost transfers should not be prepared or approved by departmental personnel if the requirements in this guide are not met.

Applicability of this Policy

All federal grants, contracts, cooperative agreements, traineeships, etc. are subject to this cost transfer policy. Subcontracts from other entities (universities, local government units, states, etc.) which are funded by federal agencies are subject to the same regulations as federal awards made directly to Vanderbilt. Drug studies and fixed price contracts may have greater flexibility.

This policy may not cover all instances and you are urged to contact the Department of Finance (for Medical Center) or the Office of Contract and Grant Accounting (for University Central Schools and Colleges) if you are not sure of the appropriateness of a requested cost transfer.
Reason for Concern

Transfers that are frequent, tardy or inadequately explained, particularly on projects with overruns or unexpended balances, raise questions about the propriety of the transfers and the reliability of the university’s accounting system and internal controls.

Government Requirements

Various government agencies have published cost transfer policies. They generally include specific requirements for written documentation, specific time limitations for making a transfer, and prohibition on transfers used solely to cover a project deficit. Exhibit A includes cost transfer policies from the Office of Management and Budget and the Grants Policy Statement.

Cost Transfers Between Similar or Related Projects

The appropriate allocation of costs among similar or interrelated projects should be made at the time a transaction is initiated in accordance with the University’s Direct Costs Guidelines (http://www.vanderbilt.edu/ocga/vupolicies/directcost/directcost.htm). The cost transfer policy summarized in the first section of this document applies to cost transfers whether projects are related or not related. If a cost transfer is not allowable within the policy as stated, relatedness cannot be used as a reason to make the transfer allowable absent written authorization from the appropriate federal funding sponsor(s).

Consequences if a Cost Transfer does not Meet Government Requirements

As required by federal regulations, the University retains external auditors to conduct extensive reviews of federal project (grant and contract) expenditures, which includes detailed reviews of cost transfers. In the event that a cost transfer does not meet the government requirements, the dollar amount of the transfer will be disallowed and the area responsible for the project will have to reimburse the project for the amount of the disallowed cost transfer.

Examples of Cost Transfers

The following are examples of cost transfers:

- Correcting charges to federally sponsored projects from unrestricted or non-sponsored sources are cost transfers.
- Correcting charges between federally sponsored projects are cost transfers.

The following are not considered cost transfers:

- Allocating charges from unrestricted or non-sponsored sources to a federally sponsored project, such as expenses charged through procurement card (P-card), copying charges, service center, etc., are considered original or initially recorded charges; these are not cost transfers.
- Allocating charges between cost centers assigned to one federally sponsored project are not cost transfers.
- Allocating charges between account codes within one cost center assigned to a federally sponsored project are not cost transfers.
- Correcting charges from federally sponsored projects to unrestricted or non-sponsored sources are not cost transfers.
II. COST TRANSFER REQUIREMENTS

Cost transfers should be prepared as soon as the need for the transfer is identified. Cost transfers for salary charges should be processed electronically via the Electronic Personal Action Change (ePAC) system by initiating a Retroactive Distribution Change (RDC) and approvals will be obtained from the required signature authorities through workflow within the ePAC system. The RDCs should contain the information relating to the costs to be transferred, as described below. For non-salary charges, a request is made to the Department of Finance (for Medical Center) or the Office of Contract and Grant Accounting (for University Central Schools and Colleges). This request must be signed by the Principal Investigator or designee and routed through the required signature authorities within the department and school or college. The request must contain certain basic information relating to the costs to be transferred, as described below.

Cost Transfer Time Period
All cost transfers should be made within 90 days of the original charge or initially recorded charge. The 90 day time period begins at the end of the accounting month that the original or initially recorded charge is posted in the general ledger. This transfer period runs until the transfer request is received in the Department of Finance (for Medical Center) or the Office of Contract and Grant Accounting (for University Central Schools and Colleges). The deadline of 90 days is the standard used by the federal agencies and its auditors to determine whether costs are reasonably charged to their project appropriately. It is a standard established in federal regulations and grant policies. It is critical that all transaction reports for federally funded projects be reconciled in a timely manner each month in order to facilitate the timely submission of cost transfers. Only in extenuating circumstances, will a cost transfer be appropriate beyond the 90 day period. These transfers will be reviewed under scrutiny and may need further justification and additional approvals.

BASIC COST TRANSFER REQUIREMENTS

All cost transfers for salary or non-salary charges must be accompanied with a justification, adequate supporting documentation (if applicable), and a certification statement. Cost transfers of salary or non-salary charges within 90 day period, as defined above, should include a complete justification. The justification should address the following questions:

1. Why was this expense originally charged to the project from which it is now being transferred?
2. Why should the charge(s) be transferred to the proposed receiving project? (how does the project benefit?)
3. Why are the charges allowable and allocable based on the terms and conditions of the receiving project?

Cost transfers of salary or non-salary charges submitted after the 90 day period, as defined above, are considered late and must have a valid reason for the delay in processing. These transfers are generally not allowed to be transferred onto another federally sponsored project unless there are extenuating circumstances. Such transfers will be reviewed under scrutiny and may need further justification and additional approvals. If the justification does not meet the extenuating circumstance
criteria, the charges would be required to be transferred to an unrestricted or non-sponsored source. The justification for these types of transfers should address the following questions:

1. Why was this expense originally charged to the project from which it is now being transferred?
2. Why should the charge(s) be transferred to the proposed receiving project? (how does the project benefit?)
3. Why are the charges allowable and allocable based on the terms and conditions of the receiving project?
4. What corrective action has been put in place to prevent future need for cost transfers of this type?

All cost transfers of salary or non-salary charges must contain the following certification statement:

“I certify that the cost transferred is an appropriate expenditure for the sponsored grant/contract charged and that the expenditure complies with the terms and restrictions governing that sponsored grant or contract.”

The certification statement must be signed (or electronically signed) by the department and School Dean or designee before the cost transfer can be processed in the accounting system.

ADDITIONAL DOCUMENTATION REQUIREMENTS FOR NONSALARY TRANSFERS

In addition, each cost transfer request for non-salary charges must contain all documentation necessary for processing of a routine journal entry within the accounting system. Such documentation includes a copy of either the monthly ledger sheet (MD091, Report of Transactions) or Edog/Business Objects printed reports containing the following data: center number, account number, transaction description (both fields), JEID, transaction date, etc. Within the ledger documentation, the expense to be transferred should be clearly identified.

INADEQUATE DOCUMENTATION

Cost transfer requests will be returned to the Department if:

- The justification does not adequately support the transfer being requested;
- The documentation required for the transfer, as described above, is missing;
- The cost to be transferred was incurred outside the effective dates of the federally sponsored grant/contract receiving the charge;
- The sole purpose of the transfer is to move deficit from one federally sponsored grant/contract to another;
- The sole purpose of the transfer is to “use up” unspent funds from a federally sponsored grant or contract; or
- If the certification statement from the Department and/or Dean is missing.

III. SUPPLEMENTARY INFORMATION

The 90 day cost transfer time period applies when transferring expenditures TO a federally sponsored grant or contract. No time limit exists for REMOVING expenditures from a federally sponsored grant or contract. If inappropriate expenditures are discovered on federal projects, they must be removed without regard to time limits.
Only in extenuating circumstances, will a cost transfer be appropriate beyond the 90 day period. These transfers will be reviewed under scrutiny and may need justification and additional approvals.

IV. SUMMARY OF COST TRANSFER POLICY

A. All cost transfers to federally sponsored projects should be made within 90 days of the original charge or initially recorded charge is posted in the general ledger. Any cost transfer removing expenses from a sponsored grant or contract must be made without regard to this time limit. Only in extenuating circumstances, will a cost transfer be appropriate beyond the 90 day period; such transfers will be subject to increased scrutiny and additional approvals.

B. The cost to be transferred must be shown to benefit and be allowable under the terms of the federally sponsored grant/contract receiving the charge.

C. Justification and documentation must accompany the cost transfer request. See Section II for specific requirements.

D. Cost transfers will be returned to the Department if:
   1. Inadequate documentation or justification is provided with the transfer request;
   2. The request for cost transfer does not meet the time period (see A above);
   3. The sole purpose of the transfer is to move a deficit from one federally sponsored grant/contract to another;
   4. The purpose of the transfer is to “use up” unspent funds from a federally sponsored grant or contract; or if
   5. The certification of the Dean’s Office or designee is missing (see Section II).

V. SAMPLE DOCUMENTATION

Below are several examples of cost transfer documentation which do not meet the requirements described above, a description of the improvements needed in the documentation, and a suggestion as to how the description could be improved to meet the requirements.

1. **Questionable explanation:** Transfer of supplies that were charged to the department in error.

   **Issue:** This explanation does not adequately explain why the wrong center was charged and why/how the charge is appropriate to the center being debited, nor does it describe how the error occurred. The explanation should be expanded to better describe the reason why the center being charged is appropriate and how the amount being transferred was determined.

   **Acceptable explanation:** The supplies being transferred were purchased via P-Card. The administrative assistant did not review the P-Card transactions by the deadline, which caused the transactions to post to the default P-Card center, which is our departmental center. Going forward, the administrative assistant will review all P-Card purchases and assign the correct center number, if applicable, to be charged before the deadline.

2. **Questionable explanation:** Transfer overage to related project.

   **Issue:** The transfer of overages from one project to another is not permitted. If expenses are being moved between two interrelated projects, the cost transfer description should clearly identify which costs are to be shared, the proportions in which the projects will share the costs, and a clear indication of how the amount to be shared was determined.
Acceptable explanation: The supplies to be transferred are used on related projects. Supplies should be shared equally on both projects, thus 50% of the cost of the highlighted items is being transferred.

3. Questionable explanation: To correct center incorrectly charged due to clerical error.

Issue: Insufficient explanation of why and how the clerical error occurred, and why the error was not caught earlier. In general, this explanation is only adequate if a transposition error occurred, and such circumstances should be included in the description.

Acceptable explanation: The research assistant in the lab who ordered the supplies used a center number of a project which was terminated. He has been instructed to use the new center number. In the future, all supply orders be reviewed and approved by myself or other administrator prior to submission of the order so that such errors can be prevented.

4. Questionable explanation: To charge a portion of a lab technician’s salary to the project.

Issue: The reason for the transfer is missing, and there is no indication of why the PAF or timesheet was incorrectly submitted at the time the charge was generated. The description should be expanded to include a description of the individuals’ role on the project, the portion of his/her salary being moved, and how the portion of salary being moved was determined.

Acceptable explanation: Transfer 50% of the lab technician’s salary to Dr. Smith’s project. This individual performed experiments with mice and split his time equally between Dr. Smith’s NIH project and NSF project. When the timesheet was completed, neither the lab technician nor the approver of the timesheet was aware that the experiments being conducted related to the additional project. We have talked with the lab technician and Dr. Smith to ensure that more information about the experiments is shared in the future which will better ensure that such errors do not occur in the future.

5. Questionable explanation: PAF was not processed in time.

Issue: The explanation does not adequately address why the PAF was not processed in time. The description should be expanded to better explain the circumstances of the delay in processing the PAF and the specific plan to avoid such occurrences in the future.

Acceptable explanation: The administrator was informed of a faculty member’s effort distribution change after HR deadline for PAFs for January payroll. The faculty member has been requested to communicate changes in effort in a timelier manner in the future in order to avoid such circumstances.

6. Questionable explanation: Move charge from department.

Issue: The reason for the transfer is not stated. The description should be expanded to explain how the charge benefits the grant being charged and why the charge was not originally posted to the grant.

Acceptable explanation: The start date of the grant is December 1. However, the center number was not established in the accounting system until January 15. The PI needed to
purchase some materials to begin work on the project in December, thus they were charged to the department until the grant center was established.

7. **Questionable explanation**: To charge 10.58% of Dr. Wilson’s salary to the research grant and close grant center.

**Issue**: Actual effort is to be estimated as closely as is reasonably possible. The use of very precise estimations is only allowable to the extent that the individual’s effort can be confirmed with such precision. The effort distribution should reflect the actual amount of effort spent on the grant, even if it causes the grant to be overspent (for which the overspent amount would then be cost shared) or causes the grant to be under spent (in which case the unspent funds would be handled as required by the award).

**Acceptable explanation**: Dr. Wilson worked 15% of his time in January on this grant project, which ended January 31. The center is currently in deficit due to a salary increase in October. Please cost share 50% of January’s salary and fringe benefits and use the department budget to fund the cost share portion.

**VI. INFORMATION AND ASSISTANCE**

Faculty and staff in Medical Center divisions can call the Department of Finance: 322-3293.

Faculty and staff in University Central colleges and schools can call the Office of Contract and Grant Accounting: 343-6655.
EXHIBIT A

OMB Circular A-21, Section C.4.b

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


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. 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.

Grantees must maintain documentation of cost transfers, pursuant to 45 CFR 74.53 or 92.42, and must make it available for audit or other review (see “Administrative Requirements—Monitoring—Record Retention and Access”). The grantee should have systems in place to detect such errors within a reasonable time frame; untimely discovery of errors could be an indication of poor internal controls. Frequent errors in recording costs may indicate the need for accounting system improvements, enhanced internal controls, or both. If such errors occur, grantees are encouraged to evaluate the need for improvements and to make whatever improvements are deemed necessary to prevent reoccurrence. NIH also may require a grantee to take corrective action by imposing additional terms and conditions on an award(s).