



Office of Sponsored Projects Cost Transfer Policy for Federally Sponsored Projects

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Replaces: Cost Transfer Guidance Provided by
Post Award Accounting Services and
Fiscal Compliance (PAASFC)

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Purpose

In certain circumstances, a charge may be posted to an incorrect project. When this occurs, a correcting journal entry is required to move the cost to the correct project. 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 system.

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 federally sponsored project, 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/center administrators, project managers; Chairs and Deans concerning government cost transfer policies. Cost transfers should not be approved if the requirements in this policy are not met.

Applicability of this Policy

All federal grants, contracts, cooperative agreements, traineeships, etc. are subject to this policy. Subcontracts from other entities (universities, local government units, states, etc.) that are funded by federal agencies are subject to the same regulations as federal awards made directly to Northern Arizona University (NAU). Fixed price contracts may have greater flexibility. This policy may not cover all instances and you are urged to contact the Office of Sponsored Projects (OSP) 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 National Institutes of Health (NIH) 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. 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).

A Consequence if a Cost Transfer does not Meet Government Requirements

As required by federal regulations, NAU is audited each year by the State of Arizona. This audit may include a detailed review of cost transfers. Further, NAU may be subject to reviews of cost transfers on federal projects. 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 on Restricted Federal Funds

The following are examples of cost transfers on restricted federal funds:

- 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 on restricted federal funds:

- 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. is considered original or initially recorded charges; are not cost transfers.
- Allocating charges between project accounts assigned to one federally sponsored project are not cost transfers.
- Allocating charges between account codes within one project 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.

Note: NAU is obligated to immediately correct unallowable charges made to federally sponsored projects, once identified, regardless of time frame.

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 prior to certification of effort. Any salary transfer occurring after effort certification is highly suspect and should only occur on an exception basis. Additional requirements for salary and non-salary transfers are identified 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 OSP. 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 and non-salary charges must be accompanied with a justification and adequate supporting documentation (if applicable). 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 the expense was originally charged to the project from which it is now being transferred? (How/why did the error occur?)

2. Why should the charge(s) be transferred to the proposed receiving project? (How does the project benefit?)
3. Why the charges are 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 will be required to be transferred to an unrestricted or non-sponsored source. The justification for these type transfers should address the following questions:

1. Why the expense was originally charged to the project from which it is now being transferred? (How/why did the error occur?)
2. Why should the charge(s) be transferred to the receiving project? (How does the receiving project benefit?)
3. Why the charges are 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 cost transfers of this type?

Additional Documentation Requirements for Non-Salary 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 the invoice and/or expense documentation including: project number, account code, transaction description, transaction date, etc.

Inadequate Documentation

Cost transfer requests will be returned 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 project receiving the charge
- The sole purpose of the transfer is to move a deficit from one federally sponsored project to another
- The sole purpose of the transfer is to “use up” unspent funds from a

federally sponsored project

Additional Documentation Requirements for Salary Transfers

III. Supplementary Information

The 90-day cost transfer time period applies when transferring expenditures **TO** a federally sponsored project. No time limit exists for **REMOVING** expenditures from a federally sponsored project. 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 as detailed in section II above. Any cost transfer **REMOVING** expenses from a sponsored project 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 project 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/Center if:
 - a. Inadequate documentation or justification is provided with the transfer request.
 - b. The request for cost transfer does not meet the time period (see A above).
 - c. The sole purpose of the transfer is to “use up” unspent funds from a federally sponsored project.

V. Sample Documentation

Below are several examples of cost transfer documentation that 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 project was charged and why/how the charge is appropriate to the project being debited, nor does it describe how the error occurred. The explanation should be expanded to better describe the reason why the project 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 project number, which is the departmental/center local project number. Going forward, the administrative assistant will review all P-card purchases and assign the correct project 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 being transferred.*

3. **Questionable explanation:** *To correct project number 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 project number that had expired. He has been instructed to use the new project number. In the future, all supply orders are to be reviewed and approved by myself or the department administrator prior to submission of the order so that 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 the 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 which will better ensure that such errors do not occur in the future.*

5. **Questionable explanation:** *Salary distribution change was not processed on time.*

Issue: The explanation does not adequately address why the salary distribution change was not processed on time. The description should be expanded to better explain the circumstances of the delay in processing and the 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 January payroll. The faculty member has been requested to communicate changes in effort in a timelier manner in the future 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 project 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 was established.*

VI. Information and Assistance

For additional information or assistance, please contact Kerri Byrd at 523-6466 or at Kerri.Byrd@nau.edu.