

Cost Transfers on Sponsored Projects: Procedures

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Procedure Statement

This document describes the procedures associated with the transfer of salary and/or non-salary costs between funding sources and the responsibilities of those involved with the transfer. Adherence to these procedures will ensure that cost transfers meet external regulations, guidelines and terms as well as institutional policies and guidelines

Procedure Requirements

It is critical that all sponsored project expenditures be reviewed on a regular, monthly basis to ensure that all charges, salary and non-salary, are correct and appropriate. With respect to sponsored projects, it is the responsibility of the principal investigator, and the PI's designee, to authorize transactions and review the expenditure activity. This review should include the determination that the charges are reasonable, allowable, allocable, and directly support the scope of work for that project.

The principal investigator or designee must determine if the reason for the cost transfer is "appropriate" as defined by federal regulations and guidelines when the cost transfer involves a federal- or state-sponsored project. When the cost transfer does not involve costs associated with a federally or state-funded project, the governing documents for the sponsored project (i.e., the contract or agreement) must be referenced to determine the appropriateness of the cost transfer.

The costs being transferred to and from sponsored projects must meet all of the requirements as defined in the institutional policy and by the NIH Grants Policy Statement (GPS) Section: Cost Considerations, Subsection: The Cost Principles.

- **Reasonable (including necessity)** – A cost may be considered reasonable if the nature of the goods or services acquired or applied and the associated dollar amount reflect the action that a prudent person would have taken under the circumstances prevailing when the decision to incur the cost was made.
- **Allocable** – A cost is allocable to a specific grant, function, department, or other component, known as a cost objective, if the goods or services involved are chargeable or assignable to that cost objective in accordance with the relative benefits received or other equitable relationship.
- **Allowable (Conformance)** – Conforms to the limitations and exclusions as contained in the terms and conditions of the award, including those in the cost principles, which vary by the type of activity, the type of recipient, and other characteristics of individual awards.

- **Consistently Applied** – Grantees must be consistent in assigning costs to cost objectives. Costs must be treated consistently for all work of the organization under similar circumstances, regardless of the source of funding, so as to avoid duplicate charges.

Salary Cost Transfers

The distribution of salary charges for WMC personnel should represent a reasonable reflection of the employee's effort. These distributions should be reviewed on a regular basis and, if changes are anticipated, PIs or department administrators must prepare and submit a *Personnel Action Form* or submit an electronic transfer request to Finance, ideally in conjunction with the change in activities. In order to comply with federal requirements, this form should be processed within 90 days after the expense was originally recorded in the financial system.

Every effort should be made to process payroll adjustments prior to the close of the fiscal year in which the original expense was incurred. Every attempt should be made to process adjustments of allocations of salaries and wages before effort has been certified by the department or during the effort certification process. By reviewing salary distributions on a project regularly, the salary distributions will, in most circumstances, be accurate on the Time and Activity Report and should coincide with the certified effort distributions. In some cases, cost transfers will need to be made subsequent to effort certification to ensure salary allocation and effort match; however, retroactive effort adjustments after certification are problematic because they raise concerns regarding timeliness and the reliability of the certification process. Requesting retroactive payroll adjustments that cross fiscal years is problematic for a number of reasons (e.g., accounts may be closed or deleted, employee benefit rates may have changed, financial reporting can be distorted, certification of effort compromised).

Non-Salary Cost Transfers

Non-salary cost transfers must be initiated by the PI and must be processed by submitting the *Transfer of Funds or Expenses* form to Finance. This form is available electronically or in hard copy format. Pertinent information required for each form includes: the account number the funds will be transferred from, the receiving account number, amount to be transferred, reason and explanation for the transfer, and proper authorization by the requestor (department administrator) and approver (PI). When an adjustment is requested more than 90 days after the original charge, the requestor must also explain the reason for the lateness of the cost transfer, in a separate section of the form (specifically for those over 90 days).

Each cost transfer request also requires supporting documentation when the *Transfer of Funds or Expenses* form is submitted. Supporting documentation must include a printout of the transaction screen from FRS that shows the original charge and confirms that the proper accounts have been identified for the transfer. Additional supporting documentation must show how the charge benefits the receiving account and how it is allocable to that account, according to the principles of A-21 and institutional policy.

Internal Review of Cost Transfers

Research Accounting will review the cost transfer for compliance with WMC's *Cost Transfers on Sponsored Projects* policy and all applicable federal regulations.

Cost transfers made for any of the following reasons will not be considered appropriate or compliant with federal regulations or WMC policy:

- Cost transfers used as a cost management strategy
- Cost transfers between sponsored projects to avoid or eliminate cost overruns
- Cost transfers solely for the purpose of utilizing unexpended funds of a sponsored award
- Cost transfers that circumvent pre- and/or post-awards restrictions
- Cost transfers for any other reasons of convenience

The following are typically considered appropriate circumstances for cost transfers, yet still will be subject to thorough review by Research Accounting before approval.

Cost transfers to correct clerical errors:

When a clerical or technical error results in costs being allocated to an incorrect funding source, the responsible department administrator may initiate a cost transfer using the cost transfer process to correct the error. The principal investigator will be notified as appropriate. As stated in WMC policy and federal guidelines, the explanation for these circumstances cannot merely state that the transfer was made "to correct an error" or "to transfer to the correct project". Additional explanation will be required, such as how or why the error occurred, and how it will be resolved so the same error does not occur again.

Cost transfers to reallocate effort to reflect actual charges:

It is acceptable to request salary cost transfer if the change in effort results in a change to salary during the effort period and if the requested change complies with federal and institutional requirements.

Cost transfers for the removal of unallowable expenses:

It occasionally may be necessary for the responsible administrator to initiate a cost transfer to remove an expense item deemed to be unallowable based on government regulation and/or a grant award agreement. When this situation occurs, the department administrator may initiate the cost transfer to the principal investigator's departmental account using the cost transfer process. The principal investigator will be advised of the transfer promptly, and further information concerning the cost will be requested. The reason the cost was determined to be unallowable will also be discussed at this time. For a list of costs designated as unallowable costs, refer to Appendix C of the WMC policy *Charging of Direct Costs to Sponsored Projects Policy*.

Cost transfers for the allocation of costs benefiting more than one project:

In limited situations, charging costs to a non-sponsored funding source initially and later reallocating these charges to sponsored projects may need to occur. However, this should only be done in unusual or special circumstances. The requirement of initially charging costs to the appropriate funding source should always be followed unless the costs benefit two or more projects or activities that are closely related, and the proportion of benefit received by each project cannot be specifically determined in advance. When this situation exists, costs may be transferred to the benefiting projects when the transfer meets all of the following conditions:

- The initial charge could appropriately have been allocated to either activity/account.
- The method of allocating the costs between the projects is reasonable and documented.
- The transfer is supported by documentation that contains a full explanation and justification for the transfer.
- The transfer is reviewed and approved by a responsible financial or administrative official of the organization.

Internal cost transfers:

Cost transfers that do not involve any externally sponsored projects are considered internal cost transfers. Requests to transfer internal costs do not require the detailed level of justification required for transfers to sponsored projects. However, these types of transfers must be in compliance with institutional policies and guidelines.

Cost transfers of out-of-period charges:

The responsible departmental administrator may initiate cost transfers using the cost transfer process to move out-of-period costs that were charged to a fund for a previous budget period, when the costs should have been charged to the fund associated with a subsequent budget period (or vice versa), as long as the project period of the grant has not ended. The principal investigator will be notified as appropriate. This type of action is not classified as a cost transfer between sponsored projects, because the transfer is between years of the same sponsored project.

Cost Overruns:

In order to meet reporting deadlines, the responsible departmental administrator may initiate a cost transfer to process cost overruns on a sponsored project. Cost transfers made to process cost overruns may not be made to another sponsored project, and must comply with institutional policies and guidelines. When this occurs, the principal investigator will be advised of the transfer promptly and the specific details of the cost transfer will be discussed at that time.

Internal Review of Cost Transfers Over 90 Days

Approval for cost transfers submitted later than 90 calendar days will only be granted in extenuating circumstances. Requestors are required to submit explanations for lateness (i.e. over 90 days) to Research Accounting for review when submitting the *Transfer of Funds or Expenses Worksheet* and assembling backup documentation.

Examples of acceptable extenuating circumstances for cost transfers over 90 calendar days:

- Late issuance of a notice of grant award or full execution of a subcontract subsequent to the start of the budget year or other period of performance; supporting documentation required.
- Failure of another department to take action, e.g. on a properly submitted payroll distribution change request; supporting documentation required.

It is the responsibility of the grantee and the PI to administer and exercise stewardship over federally funded projects in accordance with federal policies and regulations, including those relating to regular monitoring of expenditures and timely correction of errors and reallocation of expenses.

At no time should federally funded accounts be used as holding accounts for expenses, which will subsequently be transferred elsewhere, including to competing or non-competing continuations of the same project for which the notice of award or the new account number has not yet been received.