

University of Central Arkansas

Grant Accounting Policies and Procedures

Policy/Procedure Name: Cost Transfers

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Approved by:

Effective Date:

I. Background

Proper management of sponsored agreements is essential to meet the fiduciary responsibilities of the University. When reviewing federal awards, auditors continue to place special emphasis on cost transfers looking for items such as:

- Costs transferred many months after the original charges were recorded and
- Transfers not supported by adequate documentation or justification.

Both the sponsoring agencies and the University recognize that cost transfers from one cost center to another are occasionally necessary to correct bookkeeping or clerical errors in the original charges. They also recognize that closely related work may be supported by more than one funding source, and transfer of costs may be required in these cases. However, frequent, late, and inadequately explained transfers, especially those involving projects with cost overruns or unexpended balances, raise serious questions about the propriety of the transfers. In addition, the reliability of the University's accounting systems and internal controls may be questioned when there are frequent cost transfers. Cost transfers will be carefully scrutinized by Grant and Contract Accounting to ensure compliance with this policy.

II. Definitions

- A. Original Charge - the initial posting of a cost to the University's general ledger (e.g. payroll or accounts payable charges.)
- B. Cost Transfer – any subsequent transfer of cost between or to externally sponsored cost centers. Cost transfers are implemented via a paper Journal Entry Transfers, or labor redistributions.

III. Allowability of Cost Transfers

The allowability of cost transfers is dependent on the following factors:

A. Timeliness

Non-labor cost transfers must be timely, preferably as soon as possible after the original transaction, but in any case not later than 90 days after the end of the month of the original transaction. Transfers made long after the original charge raise questions concerning the propriety of the transfer. Therefore, transfers made after 90 days will be considered only under extenuating circumstances.

Labor related cost transfers also must be made in a timely fashion.

B. Appropriate Circumstances

A cost transfer is made under appropriate circumstances when the charge qualifies as a direct cost of the sponsored project being charged. OMB Circular A-21, Section D.1, and the University's Direct and Indirect Cost Policy, specify that "direct costs are those costs that can be identified specifically with a particular sponsored project...or that can be directly assigned to such (a project) with a high degree of accuracy." Typically, cost transfers are appropriate when their purpose is to correct posting or bookkeeping errors in the original charges, or to reallocate costs among cost centers.

C. Explanation/Justification and Documentation Requirements

When the need for a cost transfer arises, a Cost Transfer Explanation and Justification Request must be completed and signed. The explanation for the cost transfer must be clearly stated and must be sufficient for an independent reviewer (i.e., a federal auditor) to understand the transfer and conclude that it is appropriate. According to federal regulations, "An explanation which merely states that the transfer was made 'to correct an error' or 'to transfer to correct project' is not sufficient." Consequently, the Request may be returned to the Principal Investigator without approval because of insufficient explanation. The Department has primary responsibility for fulfilling these requirements and maintaining the related records. Grant and Contract Accounting may request copies of additional supporting documentation or information if questions arise.

IV. Procedures

All transfers of cost between or to an externally sponsored project after the original charge was posted are subject to the requirements of this policy. Cost Transfer Explanation and Justification Request Forms, must include a clear explanation for the transfer.

A. Non-labor Cost Transfer Explanations/Justifications

Great care must be exercised to ensure cost transfers are justified in a clear, complete manner. When transfers are inadequately documented, or are made for inappropriate reasons and therefore indefensible in an audit, the department is responsible for these costs and they must be transferred to other departmental cost centers.

The written explanation for non-labor cost transfers should clearly include the following:

1. Why was this expense originally charged to the account from which it is not being transferred, AND
2. Why should this charge be transferred to the proposed receiving account, AND
3. Why is this cost transferred more than 90 days after the last day of the month following the accounting period of the original transaction (if applicable)
4. If the cost transfer is over 90 days the explanation must include a justification for lateness. Transfers made after 90 days will be considered only under extenuating circumstances. Extenuating circumstances include but are not limited to the following:

- a. The official award document, including amendments or modifications, was received after the start date of the award, causing a delay in the set up of the account number.
- b. The account number assignment was delayed because of negotiation issues.
- c. The official approval from the sponsor for specific expenditures was received after the expenditure(s) was processed.
- d. The official approval from the sponsor for specific actions, such as a no-cost extension, was received after the expenditure(s) was processed.
- e. Others as deemed appropriate by the Director of Grant and Contract Accounting.

B. The following are examples of transfers that do not need detailed explanations as described above.

1. Transfers to correct a data entry or transposition error.
2. Transfers to routinely allocate direct expenses to two or more sponsored agreements that benefit directly from the expenses. Expenses must be reallocated for reasons other than covering an overexpenditure or underexpenditure. The costs must be allowable and should be allocated to the projects based on the proportional benefit of the cost to the project (If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, the cost may be allocated to projects on any reasonable basis, provided that the allocation procedure meets the standards of OMB Circular A-21, Section D.1, is fully and clearly documented within the Department, and is auditable by means of supporting documentation substantiating the allocation (e.g. usage log for an equipment maintenance contract). These also include the initial costs transferred from service centers such as: telecommunications, etc. However, such transfers must comply with the 90-day requirement.
3. Transfers of expenditures from the prior year center to the competing or non-competing continuation center. (Continuation is defined as the same project that has the same agency core award number.)
4. Transfers to reimburse the department procurement card. (A copy of the invoice for grant expenditures should be attached to the budget adjustment form.)

C. The following documents must be attached to the cost transfer form:

1. Print out of the Banner Summary Year to Date Transaction Report that shows the posting of the original charge.
2. Any other documents deemed necessary to support the explanation for the cost transfer.

D. Transfers not meeting the above criteria will be rejected and returned to the department with the reason for the rejection, even if such costs were expected as part of the project closeout. If necessary, the final Financial Status Report will be revised.