

Cost Transfers Guide for Sponsored Projects

References: UT Fiscal Policy No: FI0220

OMB Circular A-21

I. Introduction

Definition

A cost transfer is a transfer of expenditure from one WBS element or cost center to another. When the project receiving the charge is a sponsored grant or contract, special rules apply. This guide stipulates the conditions under which cost transfers may be accepted as charges to sponsored agreements.

In some instances, a cost transfer that represents a correction is unavoidable. The purpose of this cost transfer guide is to provide information to all persons involved in the administration of grants and contracts, particularly principal investigators (PI), project directors, business managers, and department heads concerning government cost transfer policies.

This guide does not address the transfer of salary charges. Please refer to the university's effort certification policy found in FI0205, SPONSORED GRANTS AND CONTRACTS for timeliness guidelines relative to salary transfers resulting from effort certification.

Federal Government Requirements

Without sufficient control and documentation of cost transfers, institutions receiving federal funds are potentially subject to audit disallowances. Cost transfers are addressed in OMB Circular A-21, Section C.4.b (<http://www.whitehouse.gov/omb/circulars/a021/a021.html>). Various government agencies (such as NIH Grants Policy Statement, Part II: Terms and Conditions...Subpart A: General...Cost Transfers (http://grants.nih.gov/grants/policy/nihgps_2003/)) have published specific cost transfer policies. Non-federal awards may have similar restrictions regarding cost appropriateness and therefore are subject to these cost transfer guidelines.

Cause for Concern

Recurring, late, or inadequately explained transfers, particularly on awards that are overspent or have unexpended funds, raise questions about the appropriateness of the transfers. For example, federal auditors will often assume that a late transfer of costs into an under-expended WBS element from an over-expended WBS element or cost center has been

made to simply cover the over-expenditure. Also, numerous errors in the recording of costs may indicate to federal auditors the need for improvement in the department or university's internal controls.

II. Cost Transfer Requirements

Allowable Types of Transfers

- To correct clerical or accounting errors, such as transposition of numbers.
- To amend charges to wrong project posted by service/recharge centers. Service/recharge centers must be approved by university administration.
- To properly allocate costs to the appropriate WBS elements or cost centers using a verifiable and reasonable method in accordance with cost accounting principles.
- To transfer charges between WBS elements or cost centers supporting “closely related work”(see definition of **Closely Related Work** UT Fiscal Policy FI0220) for reasons other than covering over-expenditures.
- If technical work and related expenditures begin before a WBS element is created, an *Advance WBS Element Request* form (available on Sponsored Projects Accounting (SPA) web site) should be completed to request the WBS element. Expenditures made pending receipt of a sponsored grant or contract should ***never*** be charged to another sponsored project WBS element in the interim. If the department chooses to not create an advanced WBS element, then a departmental cost center should be used as the temporary clearing account.
- To resolve any misunderstanding of instructions by the PI.

Transfer of costs for any of the following reasons is prohibited:

- To meet deficiencies caused by overruns or other fund considerations.
- Costs to federal project from non-federal project whether or not interrelated, if the federal project does not also benefit from the expenditure.
- To avoid restrictions imposed by law or by the sponsored agreement.
- For other reasons of convenience.

Timing

Proper month end review of ledgers by PI allows for timely correction of accounts.

- In all cases, the transfer must be made promptly. In this context, “promptly” means within 90 days after the date of the original transaction. Once the grant or contract has ended, the 90 day rule does not apply. UT Fiscal policy requires “all charges, including salaries must be processed within 60 days after the grant or contract end date”. In all cases, transfers must be made 30 days **prior to the due date** of the final financial report to the sponsor. This prevents submission of financial reports that may include inappropriate charges. **Note: For clarification of financial report due dates, check with SPA accountant assigned to the WBS element.**
- Any cost transfer cost requests **greater than 90 days** require administrative approval. This is to be accomplished by the submission of a *Cost Transfer Explanation Form* (form available on SPA website). The form must be fully completed. The PI as well as the department chair must sign the document. If under rare circumstances it should be necessary to make a cost transfer beyond 120 days, the dean’s signature is required in addition to the PI and department chair’s signatures.
- Requests to transfer costs later than 90 days after the original transaction without an approved explanation of the extenuating circumstances and required signatures via the *Cost Transfer Explanation Form* will be denied. The department or college will be responsible for all costs.

III. Documentation

Text Checklist

A necessary and allowable cost transfer must include the following when entering it in IRIS.

1. Specific identification of the original document number and date.
2. An explanation in the long text as to why the transfer is necessary including:
 - a. The reason the expense was charged incorrectly to the first project.
 - b. How the expense directly benefits the receiving project.
 - c. An explanation of the steps taken to prevent a recurrence of this type of error.
3. If the amount being transferred differs from the amount of the original document, an explanation of the difference.

The supporting documentation for all cost transfers must be retained for a period of 6 years in the department per UT Fiscal policy and made available during the course

of an audit or other review. Supporting documentation should demonstrate request or approval by PI, such as email or PI signature. Any cost transfer should be so complete or detailed, that a person completely removed from the situation (for example, an auditor) will be able to look at the request five years from now and know why the entry was made.

Not Allowable

All cost transfers are subject to review by Sponsored Projects Accounting. SPA reserves the right to reverse cost transfer entries if it appears:

- The sole purpose is to “use up” unspent funds from a sponsored grant/contract.
- The sole purpose of the transfer is to move a deficit from one sponsored grant/contract to another.
- There is an inadequate text description (see “Text Checklist” for specifics).
- To be missing original document numbers/dates.
- The cost to be transferred was incurred outside the effective dates of the sponsored grant/contract receiving the charge.
- The same expense has been transferred more than once.

IV. Examples

Example 1:

In the example below, lab supplies are being transferred from one sponsored project WBS Element to another. There is **no** information provided in the additional *Text* option fields to support this transfer. Cost transfers on sponsored awards require detailed information as stated previously (see “Text Checklist” for specifics); therefore, additional information **must** be entered using the *Text* option in IRIS.

Missing key elements: 1. Original document numbers and date 2. The reason for the need to transfer (was transfer needed due to an error, or is it a cost allocation). If an error was made, an explanation should be included as to why the error was made and how it will be

prevented in the future. If an allocation, it should be included how the allocation was determined (e.g. by percentage).

Other issues: The lab supplies are being transferred **from** an expired WBS Element (**end date 9/30/07**) that is **overspent**. The transfer date is 11/20/07 (see document date). The lab supplies are being transferred **to** a WBS Element with an end date of 2/28/08. With this circumstance and lack of explanation, an auditor would assume that this transfer is being made simply to remove the over-expenditures from the expired WBS Element.

Note: Ask yourself- Would someone completely removed from the situation be able to look at the entry five years from now and know why the entry was made?

The screenshot shows the SAP 'Document Overview - Display' window. The document type is 'ZD (Inter dept transfers) Normal document'. Key details include: Doc. Number, Date (11/20/2007), Company code (UT), Fiscal year (2008), and Posting date (11/20/2007). The document is parked by 'Closing R01'. A callout bubble points to the table with the text 'No additional text explanation provided'.

Itm	PK	Account	Acct short text	Amount	Cost Ctr	WBS elem	Fund	Order	Text	Assign	BusA	CoCd	Earmd	Fnd
1	50	439300	LAB SUPPLIES	47.68-		R01	R01		5100848910 Fisher	200711...	2101	UT		
2	50	439300	LAB SUPPLIES	501.00-		R01	R01		2401929330 Sigma-Aldrich	200711...	2101	UT		
3	50	439300	LAB SUPPLIES	51.24-		R01	R01		2401929336 Sigma-Aldrich	200711...	2101	UT		
4	50	439300	LAB SUPPLIES	160.66-		R01	R01		2401929338 Sigma-Aldrich	200711...	2101	UT		
5	50	439300	LAB SUPPLIES	138.13-		R01	R01		5100846376 Fisher	200711...	2101	UT		
6	50	439300	LAB SUPPLIES	615.85-		R01	R01		5100810976 Fisher (partial)	200711...	2101	UT		
7	40	439300	LAB SUPPLIES	47.68		R01	R01		5100848910	200711...	2101	UT		
8	40	439300	LAB SUPPLIES	501.00		R01	R01		2401929330 Sigma Aldrich	200711...	2101	UT		
9	40	439300	LAB SUPPLIES	51.24		R01	R01		2401929336 Sigma-Aldrich	200711...	2101	UT		
10	40	439300	LAB SUPPLIES	160.66		R01	R01		2401929338 Sigma-Aldrich	200711...	2101	UT		
11	40	439300	LAB SUPPLIES	138.13		R01	R01		5100846376 Fisher	200711...	2101	UT		
12	40	439300	LAB SUPPLIES	615.85		R01	R01		5100810976 Fisher (partial)	200711...	2101	UT		

Example 2:

It appears this cost transfer entry was made to transfer charges onto a new federal WBS Element. The federal WBS Element was not opened until after the begin date. **At issue:** A *Request for Advance WBS Element* form should have been submitted to open the WBS Element, or original charges should have been placed on the cost center account until the WBS Element was opened. The charges instead were posted to another sponsored project WBS Element until the new WBS Element was opened.

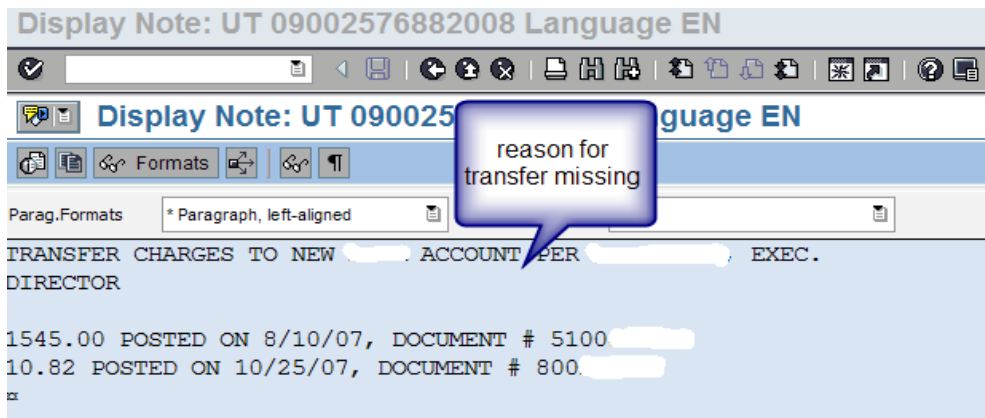
The screenshot shows the SAP 'Document Overview - Display' window. The document type is 'ZD (Inter dept transfers) Normal document'. The document number is 10/23/2007, posted on 10/23/2007. The header text is 'TRANSFER VOUCHER'. Below the details is a table with 13 columns: Itm, PK, Account, Acct short text, Amount, Cost Ctr, WBS elem., Fund, Order, Text, Assign., BusA, CoCd, and Earmd Fnd. The table contains four rows of data, all representing transfers to new accounts.

Itm	PK	Account	Acct short text	Amount	Cost Ctr	WBS elem.	Fund	Order	Text	Assign.	BusA	CoCd	Earmd Fnd
1	40	446500	SPECIAL COMMERC	1,545.00		R01	R01		TRANSFER TO NEW ACCOUNT	200710...	2101	UT	
2	50	446500	SPECIAL COMMERC	1,545.00-		R01	R01		TRANSFER TO NEW ACCOUNT	200710...	2101	UT	
3	40	435100	POSTAGE	10.82		R01	R01		TRANSFER TO NEW ACCOUNT	200710...	2101	UT	
4	50	435100	POSTAGE	10.82-		R01	R01		TRANSFER TO NEW ACCOUNT	200710...	2101	UT	

See text option screen below:

On this entry, there was additional text provided for original document numbers and dates.

At issue: To be complete, there should be a statement explaining the late opening of the WBS Element and also how these charges directly benefit this particular federal project.



V. Sample Documentation

Below are several examples of cost transfer explanations which do not meet the requirements, and an explanation for each of what they are missing.

1. Questionable text explanation: Transfer supplies to related project.

Issue: If expenses are being moved between two projects that are “closely related work”, the cost transfer description should clearly identify which costs are to be shared, the proportions in which the projects will share the cost, and an explanation of how that was determined.

Acceptable text explanation: The supplies being transferred are for related projects. Samples should be shared equally, so 50% of the supplies highlighted are being transferred.

2. Questionable text explanation: Move charges from department.

Issue: The reason for the transfer is not specified. The description needs to include how the charges benefit the project and why they were not posted to the correct WBS Element to begin with.

Acceptable text explanation: The start date of the project is April 1; however, the WBS Element was not set up until June 15. It was necessary for the PI to order supplies to begin work on the project in April, so supplies for this project were charged to the department until the WBS Element was set up.

3. Questionable text explanation: To correct charges due to clerical error.

Issue: Insufficient explanation as to why and how the clerical error occurred. It is also important to state why it was not caught earlier, and how this same mistake will be prevented from occurring in the future. If the error occurred due to a typing error, then a description of the error should be included.

Acceptable text explanation: The research assistant in the lab that orders the supplies used a WBS Element that has been terminated. He has been instructed to use the correct WBS Element. In the future, all supply orders will be reviewed and approved by an administrator prior to submission to prevent future errors of this type.