**COST TRANSFERS FOR SPONSORED PROJECTS**

**I. Purpose**

The purpose of this policy is to provide guidance on compliance with federal cost accounting policies to University of Kentucky Departments that have sponsored projects. As a recipient of federal grants and contracts, the University must comply with the Code of Federal Regulations Title 2 CFR Part 220; Office of Management and Budget (OMB) Circular A-21 Cost Principles for Educational Institutions. A-21 includes the following Cost Accounting Standards (CAS) applicable to educational Institutions.

* CAS 501 – Consistency in Estimating, Accumulating and Reporting Costs
* CAS 502 – Consistency in Allocating Costs Incurred for the Same Process
* CAS 505 – Accounting for Unallowable Costs
* CAS 506 – Cost Accounting Period

CAS 501 requires the University to use consistent accounting practices to estimate the cost of a project in the proposal and to accumulate and report the actual costs of the project. For a significant amount of estimated costs in the proposal, accounting records must provide a meaningful comparison with actual costs. One effect of this standard is the requirement to account for all funds, including university resources, committed to and incurred for individual sponsored projects commonly referred to as cost sharing.

As a recipient of Department of Health and Human Services (DHHS) grants and cooperative agreements, this guidance also incorporates the HHS Grants Policy Statement (HHS GPS) dated October 1, 2006. This statement reads:

*Permissible cost transfers should be made promptly after the error occurs but no later than 90 days following the occurrence unless a longer period is approved in advance by the Grants Management Officer.*

Institutions receiving federal funds may be subject to audit disallowances if they cannot demonstrate sufficient control and documentation of cost transfers. For a cost transfer, just as for any other expenditure transaction, the federal government is looking for documentation to establish that the expenditure is appropriate to the cost object receiving the charge, i.e., that it is generally allowable, reasonably allocable, and directly applicable to the activity represented by the charged cost object. The timing of cost transfers is important. For example, auditors will often assume that a late transfer of cost into an under expended cost object from an over expended cost object has been made simply to cover the over expenditure. Also, frequent errors in the recording of costs may indicate to federal auditors the need for improvements in the departmental/university's controls.

What happens if a cost transfer does not meet government requirements? Effective July 1, 1990, the government required universities to retain external auditors to conduct extensive reviews of federal grant and contract expenditures to include 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 College or School responsible for the sponsored project will be responsible for the disallowed cost transfer. If a significant number of cost transfers do not meet government requirements, the auditors may extrapolate the disallowances and recommend disallowing a percentage of ALL cost transfers for a particular sponsor, department, college/school, or University-wide.

1. **Definitions**
   * Allowable Cost: An expense that is eligible for reimbursement by the federal government or sponsor.
   * Cost Sharing: Project costs not borne by the sponsor; also known as matching or in kind contributions.
   * Cost Transfer: Is any movement of a previously recorded expense to or from a sponsored project within the accounting or payroll systems. “Transfer” is used in this context only because federal regulations use the expression “cost transfer.” This does not mean that these entries are recorded on “transfer” general ledger accounts within the meaning of college and university accounting principles.
   * Direct Costs: An expense charged to the sponsor fund that can be directly identified with a specific goal or achievement of the project and would not have been incurred or required for any other purpose.
   * General Ledger (GL): A complete record of all business transactions, all transactions flow through the General Ledger and are assigned a g/l account.
   * Facilities and Administrative (F&A) Cost: An expense incurred for common or joint objectives that cannot be identified readily and specifically with a particular sponsored project.
   * Journal Voucher: Document used to complete cost transfers in the accounting system used as an authorization for the entry into the accounting system.
   * Sponsored Project: Grant, Contract or Agreement or Cooperative Agreement identified as a WBS element/Grant in the SAP system and the number begins with a 3xxxxxxxxx
   * Payroll Retroactive adjustments (Payroll retros): A cost transfer performed by changing information in the HR-Payroll system that moves personnel and benefits costs posted in a previous payroll period to a different cost object in the current period
2. **Responsibilities**

1. The department with which the charge is affiliated is responsible for monitoring and reconciling all cost objects on a monthly basis according to BPM (reference reconciliation procedure here) and initiating the required cost transfer. Based on the original transaction date of the charge being moved, there are various levels of signature authority that must be obtained on the cost transfer document.

2. SPA will review the cost transfer to ensure it meets the requirements of the Cost Transfer Policy and will post the document if approved.

3. Signatures

* + - * The Department Administrator or Approving Official certifies that the expense was requested by the Principal Investigator (PI) of the sponsored project.
      * The PI signature certifies that the expense is appropriate for the sponsored project and that the expense complies with the terms and restrictions of the sponsored project.
      * The Department Chair or Director signature certifies the expense and documentation has been reviewed to ensure compliance with both internal policies and the sponsored project terms and restrictions
      * The Dean or Vice President signature certifies compliance with internal policies and the sponsored project terms and conditions and further certifies that in the event this expense is disallowed by SPA, internal or external auditors, the College or School is financially responsible for the disallowed costs and any associated penalties.

**IV. Policy**

In all cases, the transfer must be made promptly. In this context, "promptly" means that the cost transfer should be made no later than 90 days of the original transaction, and in all cases 30 days prior to the date the final report is due to the sponsor. This is particularly critical when approaching the end of a budget period, otherwise sponsor reports may be filed including inappropriate charges.

Expenditures made pending receipt of a sponsored project should never be charged to another sponsored project in the interim. Instead, a departmental cost center should be used as the temporary clearing cost center (because that is where non-sponsored departmental research would be appropriately charged if the project is not ultimately funded).

Multiple requests to transfer costs later than 90 days after the original occurrence without an approved explanation of extenuating circumstances will be denied and all charges will be moved to a departmental cost center or cost share fund as determined by SPA.

However, under no circumstances can costs that directly benefit nonfederal projects be assigned or transferred to federal projects, whether or not interrelated, if the federal project does not also benefit directly from the expenditure. Nor can charges be transferred to any cost object regardless of sponsor if the charging project has not directly benefited from the charge.

Any costs allocable to a particular sponsored project under the standards provided in this policy may not be shifted to other sponsored projects in order to meet deficiencies caused by overruns or other fund considerations or for other reasons of convenience. See OMB Circular A-21

1. A Cost Transfer may sometimes be necessary to:

* Correct bookkeeping or clerical errors in original charges within 90 days of the error and providing an appropriate explanation of the error (after 90 days, not reviewing ledger sheet or reconciling it or another cost object in a timely manner will not be an acceptable explanation);
* Properly allocate costs to the appropriate cost objects using a verifiable and reasonable method in accordance with cost accounting principles;
* Transfer charges between cost objects supporting closely related work for reasons other than covering over expenditures; or
* Reclassify expenditures to cost sharing funds

1. The following circumstances are considered unallowable:
   * + - A JV adding expenses cannot be processed on a closed sponsored project;
       - A JV that will overspend a budget line or a sponsored project;
       - A JV that moves “force posted” pro card charges from a departmental cost center to a sponsored project will not be processed without approval of the SPA Director;

* For DHHS awards, requests for cost transfers beyond 90 days are unallowable according to the DHHS GPS;
* A cost transfer changing a general ledger (g/l) account included in the Facilities and Administrative (F&A) Costs calculation (such as office supplies) to a direct g/l account when the documentation refers to an F&A item (such as paper or pencils and pens), unless the item is budgeted in the accounting system;
* A JV using faculty-related g/l accounts. Normally, this type of correction must be done through the Faculty Effort System, unless approved by the SPA Director;
* A JV moving over-expenditures to another sponsored project at the end of the credited project; or
* A cost transfer crediting the Dean’s direct overrun account.

1. Closely Related Work

When the work supported by one sponsored project is determined to represent work closely related to that of another sponsored project, a cost transfer from one of the cost objects to the other might be legitimately made with prior written approval from the sponsor receiving the charge. At a minimum, the following conditions must be met to justify a cost transfer on the grounds that the activity qualifies as "closely related work":

The projects are scientifically and technically related;

The projects are under the direction of the same principal investigator;

There is no change in the scope of the sponsored projects involved;

The relating of costs will not be detrimental to the conduct of work under each award; and

The relatedness will not be used to circumvent the terms and conditions of the awards.

1. **Procedures**

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, the complete explanation and its accompanying documentation five years from now and know what and why this entry was made. If all requirements are not met or if denied by SPA the un-posted document will be returned to the dept or SPA may post the expenses to departmental cost center or cost share fund as deemed appropriate.

1. The request for non-personnel cost transfers must include:
   * + - Journal voucher document;
       - Journal voucher explanation form;
       - Specific identification of the original charge;
       - Copy of the originating documents such as a purchase orders, DAVs, or travel vouchers and all supporting vendor invoices, receipts, copies of recurring documents such as rental or lease agreements or other documentation as appropriate;
       - Justification of the appropriateness of the charge to the receiving cost object;
       - A full explanation of why the transfer is necessary;
       - Full allocation method if transfer amount is different from the original documented expense (the written explanation must include the allocation method used and indicate the difference by percentage); and
       - Signatures as defined by the timeliness of the transfer.
2. Personnel cost transfers documentation via JV should include:
   * JV explanation form;
   * A complete explanation of why the transfer was necessary;
   * Sending a revised certification for the individual to SPA if the effort was previously certified including signatures certifying that the new allocations accurately reflect the effort that the individual expended during the period and rescinding any previous certification of effort; or evidence of coordination with the certifying official to assure proper certification of effort on future certifications;
   * Labor distributions or STEPS invoices showing the distribution of effort to each cost object that was originally charged; and
   * Signatures as defined by the timeliness of the transfer.
3. Personnel cost transfers documentation **not** sent via JV should include:

* A complete explanation of why the transfer is necessary;
* Sending a revised certification for the individual to SPA if the effort was previously certified including signatures certifying that the new allocations accurately reflect the effort that the individual expended during the period and rescinding any previous certification of effort; or evidence of coordination with the certifying official to assure proper certification of effort on future certifications;
* Labor distributions or STEPS invoices showing the distribution of effort to each cost object that was originally charged.
* Signatures as defined by the timeliness of the transfer

1. Timeliness

A JV with charges more than 120 days old must have appropriate signatures and an explanation of extenuating circumstances which prevented the transaction from being made earlier attached as a memo to the SPA Director. Charges under this circumstance that are not approved will be moved to the appropriate Dean’s overrun cost center or to the cost sharing fund. These items are approved at the discretion of the SPA Director who will make these determinations based upon institutional considerations.

* Cost transfers with original transaction dates less than 90 days old may be signed by the departmental administrator, approving official or PI.
* Cost transfers for sponsored projects (not funded through DHHS or flowed through another organization with DHHS funds) with an original transaction date greater than 90 days but less than 120 days shall be signed by the PI and Chair/Director of the department assigned as the responsible unit for the sponsored project.
* Cost transfers for sponsored projects (not funded through DHHS or flowed through another organization with DHHS funds) with an original transaction date greater than 120 days old shall be signed by the PI, Chair/Director and Dean/Vice President.

1. Budgeting issues

If the F&A item is allowable on the sponsored project and budget is not available, the department must contact the appropriate Research Administrator in the Office of Sponsored Projects Administration (OSPA) to budget the F&A g/l account on the cost object prior to sending the JV to SPA.