

# Title: Cost Transfer Guidelines/Procedures

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Approved By: Stein Sture, Vice Chancellor for Research and Dean of the Graduate School

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## 1. Background Information

It is generally accepted by the federal government, sponsoring agencies, and auditors that if direct costs are “easily identified and assigned...with a high degree of accuracy,” as required in OMB Circular A-21, the initial charging of a cost to a project constitutes the proper allocation of that cost. A **cost transfer** occurs when an expense originally charged to another FOPPS is transferred to a sponsored project (Fund 30/31) FOPPS.

## 2. Pertinent Regulations

### **Office of Management and Budget (OMB) Circular A-21, Section C.4.b**

*“Any costs allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.”*

### **NIH Grants Policy Statement**

*“Cost transfers to NIH grants by grantees should be accomplished within 90 days....Transfers must be supported by documentation that fully explains how the error occurred and a certification of the correctness of the new charge by a responsible organizational official of the grantee.... An explanation merely stating that the transfer was made ‘to correct error’ or ‘to transfer to correct project’ is not sufficient. Transfers of costs from one project to another or from one competitive segment to the next solely to cover cost overruns are not allowable. Grantees must maintain documentation of cost transfers, pursuant to 45 CFR 74.53 or 92.42 [record retention requirements] and must make it available for audit or other review... Frequent errors in recording costs may indicate the need for accounting system improvements and/or enhanced internal controls... NIH also may require a grantee to take corrective action by imposing additional terms and conditions on an award(s).”*

### 3. Cost Transfer Fundamentals

It is critical that all sponsored projects be reviewed on a regular basis (monthly) to ensure that expenditures are accurate and appropriate. Diligent review of financial reports and timely communication between principal investigators and departmental administrators should prevent the necessity for transfers. When errors are discovered, however, they must be corrected as quickly as possible.

- Cost transfers should be considered “the exception, rather than the rule,” and must be kept to a minimum.
- Transfers made within 30 days after the end of the month in which the transaction appeared on the Reporting System statement are normally considered to be acceptable corrections of errors, and an explanation in the header description of that error provides sufficient justification. In most cases, no further documentation is needed. Transfers processed between 30 and 90 days after the end of the month in which the transaction appeared on the Reporting System statement must include written justification and all relevant back-up documentation. Cost transfers completed more than 90 days beyond the end of the month in which the transaction appeared are considered exceptions and require substantial and reasonable justification.
- All expenses that are transferred must meet the same federal tests for allowability – they must be:
  - reasonable,
  - allocable, and
  - consistently treated as a direct cost. For a review of the major types of expenses that the University has defined as “direct costs,” refer to the Quick Reference Card (QRC), available on the Accounting and Business Support (ABS) web site under “Q,” or submit an order for a paper copy to [Accounting@colorado.edu](mailto:Accounting@colorado.edu). See the [Direct Cost Policy](#) for more on direct costs.
- Each journal must transfer specific transactions, and must also identify the original transaction. See Section 5 *Required Documentation* below for details.

### 4. Examples of Cost Transfers

#### **Cost Transfers which *may* be appropriate:**

- Correction of technical errors, such as a data entry or transposition error.
- Recurring and routine transfers to allocate direct expenses, such as telephone toll charges or Internal Service Center recharges. The methodology for allocating charges must be consistent, well-documented, and based on the benefit derived (see ABS [Internal Sales Activities Chapter](#) of the *Departmental Financial Management Guide*).
- Transfer of pre-award costs from another departmental FOPPS, given that the expenses were allowable and allocable, and were incurred within the permitted time period before the beginning date of the award. Note: Departments may request a “Pending” project number when funding is anticipated, in order to avoid after-the-fact cost transfers. If funding is not received, the department will be held responsible for all pre-award expenditures.
- Transfers from the prior year account to a continuation award, if permitted by the terms of the award.
- Transfers between projects when the work is closely related and the cost is a proper charge to either project.

- Transfers to move unallowable charges, or to eliminate a deficit, to *non-sponsored project FOPPS* (i.e., a program account).

#### **Cost Transfers which are *not* appropriate**

- Transfers processed solely to move deficit spending from one sponsored project to another sponsored project.
- Transfers that are processed solely to use up unexpended balance, but do not appear to be of direct benefit to the project, i.e. transfers of costs during the last months of a project.
- Transfer of unidentified expense or lump-sum expenses to an award FOPPS.
- Transfers of expenses that were not incurred during the project period of performance (POP), unless specifically allowed by the sponsor.
- Random or regular rotation of costs, absent any information on actual use. i.e., arbitrary charging of pooled costs such as photocopies or lab supplies.
- It is **never permissible** to transfer Revenue, Cash, or Facilities & Administrative expense either *from* a sponsored project FOPPS or *to* a sponsored project FOPPS.

## 5. Required Documentation

All cost transfers must include a complete and clear explanation, as well as all supporting documentation. The justification must address *all* of the following:

- The cause of the error (why the receiving FOPPS was not charged originally)
- Justification that the charge is allowable, allocable, and provides direct benefit to the project receiving the charge.
- Each cost transfer must identify the *original transaction*, referring to the original Journal ID number, and the Journal date. Refer to the [ABS Cost Transfer Journal Entry Help Page](#) for greater detail about journal entry requirements
- In *exceptional* circumstances, a department may believe a cost transfer is best handled in a lump-sum fashion. In these situations, the department must provide adequate back-up documentation which would identify the specific transactions included in the lump sums, and approval must be acquired by the responsible Sponsored Projects Accounting (SPA) accountant..
- Abbreviations, incomplete sentences, and other word reduction techniques are expected in the journal header due to the 254 character limit, as shown in the examples below.

**According to federal guidelines, “an explanation which merely states that the transfer was made ‘to correct error’ or ‘to transfer to correct project’ is not sufficient.”**

**Examples of adequate documentation are as follows:**

- “Monthly review by PI of Reporting System statement revealed error charging payroll exps to grant. Payroll liaison was not notified that grad student is assigned to another research proj.”
- “To transfer pre-award project costs to the continuation account”
- “A transposition error in SpeedType entered with original transaction caused the cost to be charged to wrong project.”

- “Continued funding from agency was expected to be under same grant but was assigned a different no., requiring setup of new project . This transfer moves exps to new proj FOPPS.”
- “Project start date is 01/2008 but final sign-off delayed availability in financial system until 06/2008. These costs were incurred during POP but charged to another FOPPS.”

## 6. Cost Transfer Transactions

Cost transfers can take place by means of a Payroll Expense Transfer (PET), or a manual journal entry (JE) for non-payroll expenses.

### 6.1 Cost Transfers Involving Payroll Transactions (PETs)

The distribution of salary charges for personnel should represent a reasonable reflection of the employee’s effort as reported at the end of each semester via electronic Personnel Effort Reports (ePERs). Salary allocations should be reviewed on a regular basis and, if changes are anticipated, adjustments to funding distribution should be prepared in the Human Resources Management System (HRMS). **Salary adjustments or cost transfers of salaries and wages should be made BEFORE work effort has been certified by the employee.**

Every endeavor should be made to process payroll adjustments or cost transfers within the same semester so salary expense accurately denotes the projects where effort was expended. At a minimum, transfers should be done within the same fiscal year, prior to the fiscal year end on June 30, because the University’s fringe benefit rates change on July 1. As a result, any corrections made on or after July 1 for errors on salary that was paid prior to July 1 will apply a different fringe benefit rate to the correction than was applied to the original entry. This should be avoided.

When payroll-related cost transfers are appropriate and allowable, prepare a Payroll Expense Transfer (PET) in the HRMS. **NOTE:** It is possible to transfer **less than 100%** of the monthly salary.

1. When preparing the payroll transfer, justification for the transfer as described in Section 5 should be entered into the Journal Description panel of the PET.
2. Once payroll has been certified to a particular project, SPA will not approve a PET that moves that payroll to another project except in highly unusual circumstances. Such transfers require documentation that adequately justify a change in the previous certification and must comply with this *Cost Transfer* policy. If a payroll transfer moves salary that is greater than 180 days old, the PI must provide a written statement to SPA that explains how this benefits the project receiving the expense, why this project did not receive the charges when they first occurred, and why it took so long to initiate the transfer. If a PET is submitted after the semester has ended that affects an electronic Personnel Effort Report (ePER) not yet certified, the payroll distribution changes will be reflected on the uncertified ePER. Once an ePER is certified, however, any changes to that ePER resulting from a PET will require the entire ePER to be recertified. Consult the ABS [Electronic Personnel Effort Reporting System](#) policy for more information.

## 6.2 Cost Transfers Involving Non-Payroll Charges (JEs)

For non-payroll related cost transfers, prepare an online Journal Entry (JE) in the Finance System.

1. Documentation, as described in Section 5, must be included in the Business Purpose field of the **Header Panel**:

Header | Lines | Totals | Errors | Approval

Journal ID: NEXT      Date: 06/02/2008      Ledger Group: ACTUALS

Remember there are unique pages for Actual Journal Entries, Cash Transfer Journal Entries, Gift Fund Journal Entries, Budget Journal Entries, and Encumbrance Journal Entries. The Business Purpose box must explain how the journal entry accomplishes official university business. It explains both what you are doing and why you are doing it. It should be written so that an independent third party is able to discern the purpose of the transaction. Refer to the Job Aid at [http://www.cu.edu/controller/documents/19\\_CREATING\\_A\\_JOURNAL\\_ENTRY.doc](http://www.cu.edu/controller/documents/19_CREATING_A_JOURNAL_ENTRY.doc) for more details on the required content.

\*Business Purpose:

I certify that all expenses are specific transactions that are appropriate to be charged to the sponsored project(s) or gifts (Fund 30, 31 or 34 FOPPS) receiving the charge and the information contained in the entry purpose (or long description field above) is true and correct, that costs charged onto a sponsored project or gift meet the direct cost and other costing criteria and are within the allowable timeframe for transfer (see campus policy for direct cost and other costing criteria and timeframe) or consistent with the donor restrictions. I have included enough information in the Journal Entry purpose (or long description field above) to allow costs to be tracked to the original expense. The Journal Entry purpose (or long description field above) includes the cause of the error and additional information as required by campus policy.

2. Use the Journal Line Description field of the **Lines Panel** to identify the transaction with the Journal ID number of the original JE. Use the Reference field to identify the journal date (*not* the invoice date) of the original transaction using the mm/dd/yy format. The slashes are required.

Header | Lines | Totals | Errors | Approval

Journal ID: NEXT      Date: 06/02/2008      Ledger Group: ACTUALS      \*Process: Validate Journal

[Change Values](#)     

All journal entries, except budget and encumbrance journal entries, must be balanced between credit and debit amounts; budget and encumbrance journal entries are single line entries (i.e., are not required to be balanced between credit and debit amounts). Debit and credit conventions apply to all journal entries. Debit lines are created by inserting the number in the Amount field without any sign designation. Credit lines are created by inserting a minus sign "-" before the number in the Amount field. If an entry is in balance the values under Total Debits and Total Credits in the bottom box will be equal. For further guidance on the debit/credit construction of journal entry, see <http://www.cusys.edu/controller/documents/d-cJE.pdf>. For more information about using the Journal Entry page see [http://www.cu.edu/controller/documents/19\\_CREATING\\_A\\_JOURNAL\\_ENTRY.doc](http://www.cu.edu/controller/documents/19_CREATING_A_JOURNAL_ENTRY.doc)

Select	Line	SpeedType	Fund	Org	Program	Project	Sub-class	*Account	Amount	Journal Line Description	Reference
<input type="checkbox"/>	1	13053330	30	10032		1536111		530101	1,983.00	0000376781_FR_ST13053303	05/08/08

Journal ID for the original cost transaction.

Date – use a mm/dd/yy format – of the original transaction. Note: the slashes 05/08/08 in the date are required.

3. Cost transfers that involve any of the following require additional documentation before SPA can evaluate the journal for approval. Contact the SPA compliance office for details.
  - Travel expenses
  - Expenses normally treated as indirect costs
  - Tuition remission charges
  - Contractual services
  - Honoraria
  - Official functions

## 7. Approval and Posting of Cost Transfers

All **payroll-related cost transfers** and **non-payroll cost transfers** are reviewed by SPA to ensure that the transaction is allowable, timely, reasonable, consistent, beneficial, and adequately documented. PETs and JEs require SPA approval prior to posting but JEs cannot be approved by SPA until they have departmental approval.

## 8. Document Retention for Cost Transfers

Documentation pertaining to cost transfers must be maintained by the department in accordance with University of Colorado *Retention of University Records* Administrative Policy Statement. Cost transfer documentation must be made available for audit or other review.

## 9. References *(alphabetical order)*

[ABS Cost Transfer Journal Entry Help Page](#)

[Direct Cost Policy](#) Graduate School Policy

[Electronic Personnel Effort Reporting System \(ePERS\)](#) ABS Policy and Procedure

[OMB Circular A-21](#) *Cost Principles for Educational Institutions*

[Sponsored Project Accounting](#) Chapter 14, *ABS Departmental Financial Managers Guide*