UNIVERSITY OF PUERTO RICO - MAYAGUEZ
RESEARCH AND DEVELOPMENT CENTER (R&DC)

COST TRANSFERS FOR SPONSORED PROJECTS

1.0 INTRODUCTION

A cost transfer is essentially a movement of charges among institutional accounts related to sponsored projects, via a Journal Entry (JE). For a cost transfer, upon audit documentation supporting that the charge is reasonable, appropriate and allowed to the affected account is requested. Not just the nature, but also the timing of the cost transfers is important. For example, federal auditors could assume that a late transfer of cost into an underexpended account from an overexpended account has been made simply to cover the overexpenditure. 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 requires universities to contract 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 government requirements, the federal government can disallow reimbursement of the costs. The College or School will be responsible for the disallowed charges.

Cost transfers are classified as exceptional events and, therefore, should not occur often. These activities should be monitored given their importance to the University. If a pattern of occurrence is identified, it could be an indication of poor project management.

1.1 ALLOWABLE TYPES OF TRANSFERS

Journal Entry may sometimes be necessary to:

1. Correct bookkeeping or clerical errors in original charges within 90 days of the error. An appropriate explanation of the error must be provided (not reviewing the ledger sheet in a timely manner will not be an acceptable explanation).

2. Properly allocate costs to the appropriate accounts using a verifiable and reasonable method in accordance with cost accounting principles

3. Transfer charges between accounts supporting closely related work for reasons other than covering overexpenditures (This requires sponsor written approval. Refer to "Closely Related Work" Section 1.5 in policy)

4. Reclassify overexpenditures to voluntary cost sharing accounts

Under no circumstance can costs related to federal projects be transferred to non-federal projects, whether or not interrelated, even if the non-federal project also directly benefits from the expenditure.

Charges cannot be transferred to any account, regardless of sponsor if the charging account 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.)

1.2 TIMING

In all cases, the transfer must be made promptly by the R&DC Accounting and Finance Office. This is particularly critical when approaching the end of a budget period, otherwise sponsor reports may be filed including inappropriate charges. 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.

The R&DC Director or delegated person must approve any cost transfer request greater than 90 days. Requests for cost transfers to be processed must be signed and approved specifically by the principal investigator. Requests for late cost transfers should include an explanation of the extenuating circumstances which prevented the transaction from being made earlier.

The Principal Investigator signature certifies the expenditure(s) is appropriate for the sponsored project account and that the expenditure(s) complies with the terms and restrictions governing that sponsored project account.

The **R&DC** Accounting and Finance Office signature certifies the expenditure and documentation has been reviewed to ensure compliance with both internal policies and the sponsored project terms and restrictions.

The **R&DC** Director signature certifies the same procedure as the **Finance Officer**. The R&DC Director understands that if a cost transfer is disallowed upon audit, the College or School is responsible for the disallowed cost. (See Section 1.6 below)

Expenditures made pending receipt of a sponsored grant or contract (*pre-awards costs*) should never be charged to another sponsored project account in the interim. A departmental account should be used for these charges. Ultimately, if the project is not funded, this will be the account charged for these costs.

Multiple requests to transfer costs later than 90 days after the original occurrence without a justified explanation of the action will be denied and all charges will be moved to a departmental account, with the Dean's approval.

Any cost transfer removing expenditures from a federal project greater than 90 days must contain the above referenced documentation and signatures. The expenditures cannot be charged to another sponsored project account.

1.3 DOCUMENTATION

The request for cost transfer must include:

1. Specific identification of the original charge (Copy of the originating documents such as purchase orders, travel vouchers and all supporting vendor invoices, receipts, or other documentation as appropriate);

2. Justification of the appropriateness of the charge to the receiving account; and

3. A full explanation of why the transfer is necessary.

The federal government expects the official documentation for a cost transfer to include a complete explanation of the reason the transfer is being made. The federal Public Health Service (PHS) Grants Policy Statement states that explanations such as "to correct error" or "to transfer to correct account" are not sufficient. (See Chapter 7 of the PHS Grants Policy Statement.)

Requests for cost transfers into sponsored project accounts involving personnel costs require special attention. With personnel costs, if the transfer involves previously certified effort, or effort that is to be certified on the semi-annual and annual certification you must coordinate this with the certifying official (R&DC) to assure proper certification of effort. When the personnel costs are not subject to above certifications (hourly employees), the documentation should include an explanation of why the change is being made, certify that the new allocations accurately reflect the effort that the individual expended during the period, and must be documented by labor distribution sheets showing the distribution of effort to each account that was originally charged. When transferring salaries and wages, consideration must be taken to also reclassify the associated personnel benefits cost.

1.4 DISALLOWANCES

The department to which the charge is affiliated is responsible for appropriately funding any cost transfers which are disallowed due to failure to meet the timing or documentation requirements stated above. The department and/or Dean will be held financially responsible if any cost transfers are later disallowed upon audit.

The following circumstances are considered unallowable:

1. A Journal Entry crediting the Dean’s direct overrun account.

2. A Journal Entry changing an indirect object code (such as office supplies) to a direct object code when the back up documentation refers to an indirect item (such as paper or pencils and pens). If the indirect item is allowable on the sponsored project account, the department must contact the R&DC Director or appropriate Administrator to budget the indirect object code to the account.

3. A Journal Entry moving over-expenditures to another sponsored project account at the end of the project.

1.5 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 accounts 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":

1. The projects are scientifically and technically related.

2. The projects are under the direction of the same Principal Investigator.

3. There is no change in the scope of the sponsored projects involved.

4. The relating of costs will not be detrimental to the conduct of work under each award.

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

1.6 OBJECT CODES

The term "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" object codes within the meaning of college and university accounting principles. Instead, these entries are normally recorded with the debit and credit on the same object codes as were used on the original transaction.

1.7 GENERAL GUIDELINES

- A Journal Entry cannot be processed on a frozen account.

- A Journal Entry cannot be processed on a closed account.

- A Journal Entry with charges more than 90 days old must have the appropriate signatures and an explanation of extenuating circumstances which prevented the transaction from being made on time. Charges under this circumstance that are not approved will be moved to the appropriate Dean’s overrun account or mandatory cost sharing account.

- A Journal Entry that will overspend an account will not be processed.

- A Journal Entry that moves “*force posted pro card charges*” from a departmental account to a sponsored project account will not be processed without approval from the R&DC Director.

- If the amount being transferred differs from the amount indicated on the backup documentation, the written explanation must indicate the percentage of the difference and the appropriateness of the amount being charged.

- There should be no negative amounts on a Journal Entry.

- 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 either the Dean's direct overrun account, the mandatory cost share account or the Dean's indirect overrun account as appropriate.

1.8 GOAL

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 later and know what and why this entry was made.