

# Cost Transfers Affecting Federally Sponsored Agreements

## Purpose of the Cost Transfer Policy

In certain circumstances, a charge may be posted to an incorrect account. When this occurs, a correcting journal entry is required to move the cost to the correct account. This policy explains why we need a journal entry and the requirements of a cost transfer journal.

**OMB Circular A-21:** *"...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 (12/03) Part II:** *"Cost transfers to NIH grants by grantees, consortium participants, or contractors under grants that represent corrections of clerical or bookkeeping errors should be accomplished within 90 days of when the error was discovered. The 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, consortium participant, or contractor. An explanation merely stating 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, and must make it available for audit or other review (see "Administrative requirements-Monitoring-Record Retention and Access"). The grantee should have systems in place to detect such errors within a reasonable time frame; untimely discovery of errors could be an indication of poor internal controls. Frequent errors in recording costs may indicate the need for accounting system improvements, enhanced internal controls, or both. If such errors occur, grantees are encouraged to evaluate the need for improvements and to make whatever improvements are deemed necessary to prevent reoccurrence. NIH also may require a grantee to take corrective action by imposing additional terms and conditions on an award(s).*

## Background

A cost transfer occurs when an expense is moved from one account to another account. There may be a few times when it is necessary to create a cost transfer, such as a data entry error or when a determination is made that the expense better benefited another project rather than the account charged.

Transfers must be completed in a timely manner and require detailed documentation as to the reason for the transfer. Cost transfers are red flags for auditors. Frequent, tardy, or inadequately explained transfers, especially on projects with significant cost overruns or unexpended balances will raise questions as to the appropriateness of the transfer. As a result, all transfers must be fully documented as to the need for the correction.

## Cost Transfer Requirements

All cost transfers must be accompanied by written documentation (see Cost Transfer Request and Explanation Form below) which includes an adequate explanation of the reason for the error and/or other reason for the cost transfer and the reason why the charge should be transferred to the receiving project.

The Principle Investigator will initiate the request for transfer and submit the documentation to the Associate Dean of Faculty's Office. If the request meets the Associate Dean of Faculty's approval, it will be forwarded along to the Associate Controller to approve. If the cost transfer request is approved, the Accounting Assistant will process the request. No transfer requests will be entered unless approved by the Associate Controller.

If the transfer is being requested more than 90 days after occurrence, an explanation as to why the request was not made in a timely manner and how the situation will be prevented going forward must also accompany the Cost Transfer Request. The 90 day cost transfer time limit applies when transferring expenses to a sponsored grant. No time limit exists for removing expenditures.

The explanation must be sufficient for an auditor to understand the transfer and agree that it is appropriate. Federal regulations state, "An explanation which merely states that the transfer was made 'to correct error' or 'to transfer to correct project' is not sufficient."

## Summary

- All cost transfers to sponsored grants should be made within 90 days of the original charge. Any cost transfers removing expenses from a grant must be made without regard to this time limit. There may be unusual circumstances when a cost transfer may be appropriate after the 90 day deadline but transfers of this nature will be subject to increased review.
- The transferred cost must be allowable under the terms of the grant receiving the charge.
- Written justification and documentation must accompany the cost transfer request. Use the Cost Transfer Request and Explanation Form.
- Cost transfer requests will be returned to the Principal Investigator if:
  1. Inadequate documentation is provided.
  2. The request does not meet the time deadline.
  3. The purpose of the transfer is to move a deficit from one sponsored grant to another.
  4. The purpose of the transfer is to "use up" unspent funds from a sponsored grant.

## Red Flags

- Transfers to or between sponsored projects.
- Transfers older than 90 days after the original transaction.
- Transfers in the last month of the award or after the award has expired.
- Large numbers of cost transfers.

- Grants with zero balances.
- Paying summer salary later in year.

## Examples of sample documentation

1. **Inadequate explanation:** *Transfer of supplies that were charged to the department budget in error.*

**Why Inadequate??** Explanation does not explain why the department budget was charged and why the grant should be charged. Also a statement is needed as to how the error will be prevented in the future.

**Adequate explanation:** *The supplies to be transferred were purchased with a Hamilton College Central Bill Credit Card. The lab tech did not review the card transactions when the charges were posted. Going forward, the lab tech will review all the Hamilton Card purchases and assign the correct account numbers to be charged.*

2. **Inadequate explanation:** *Clerical error*

**Why Inadequate??** Need more information as to why and how the clerical error occurred. The explanation is adequate if a transposition error occurred and described in the description.

**Adequate explanation:** *The lab tech who ordered the supplies charged them to another grant, NSF grant "Life span of Fruit Flies" in error. These supplies are to be used for research on the NSF grant, "Lungs of Frogs". In the future, grant account charges will be reviewed by the Principal Investigator to ensure the correct account numbers are charged.*

# Cost Transfer Request and Explanation Form

## Federal Grants

**OMB Circular A-21:** *"...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."*

Charge: \_\_\_\_\_ Amount: \_\_\_\_\_

Credit: \_\_\_\_\_ Amount: \_\_\_\_\_

Transfers requested within 90 days of occurrence require that questions 1 and 2 are answered.  
Transfers requested more than 90 days after occurrence require that all 4 questions are answered.

**1. Why was this expense originally charged to the incorrect account?**

**2. Why should this charge be transferred to the proposed receiving grant?**

**3. Why is this cost transfer being requested more than 90 days after the occurrence of the original transaction?**

**4. What action is needed to eliminate future need for cost transfers of this type?**

Principal Investigator's signature: \_\_\_\_\_ Grant: \_\_\_\_\_

Dean of Faculty (or designee) signature: \_\_\_\_\_ Date: \_\_\_\_\_

Associate Controller's signature: \_\_\_\_\_ Date: \_\_\_\_\_

**NOTE:** By signing above you are certifying that the cost to be transferred is an appropriate expenditure for the grant charged and that the expenditure complies with the terms and restrictions governing that grant.