COST TRANSFERS

OFFICE OF SPONSORED PROJECTS
Overview

- Introduction to the Cost Transfer process
- Provide an overview of cost transfer regulations
- Review of Brown University’s Cost Transfer Policy
- Provide tips and tricks that will help to reduce the need for cost transfers
What is a Cost Transfer?

- A cost transfer is an after-the-fact reallocation of costs, either labor or non-labor, to a sponsor funded award.

- Typically, cost transfers are appropriate when they are allowable direct costs of the sponsored project and their purpose is to:
  - correct errors in processing the original charges;
  - move costs between funds for closely related work as defined by the project scope that is supported by more than one funding source;
  - reallocation of shared services;
  - transfer pre-award costs in accordance with the provisions of OMB federal requirements, (Circular A-110 Section C.25 or Uniform Guidance 2 CFR 200.308 Section d.1)
Why is a Cost Transfer Policy Necessary?

Under 2 CFR Part 200 (Uniform Guidance) meet the following conditions:

- Be **necessary** and **reasonable** for the performance of the award and be **allocable** (Incurred solely to advance the work under the sponsored agreement) to the award;

- Be **allowable** (the cost is allowed by federal regulations, sponsor terms and conditions, including program specific requirements and University policy);

- **Treated consistently** (a cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost);

- In accordance with generally accepted accounting principles (GAAP);
Why is a Cost Transfer Policy Necessary Continued

- Not included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period; and
- Be adequately documented
- To reduce late, frequent, and inadequately explained cost transfers which:
  - Suggest poor financial management
  - Lead to questions on the overall reliability of the institution’s internal controls and accounting systems
  - Cause audit issues
Brown’s Cost Transfer Policy

https://www.brown.edu/research/conducting-research-brown/managing-award/award-management/cost-transfer-policy
Cost Transfer Requirements

- Cost Transfer Explanation and Justification Form
- Documentation for the original charge(s) if not executed in Workday (i.e.: For p-card charges provide original credit card receipt and p-card log); or operational transaction ID (i.e.: ER-12345) if executed in Workday; and/or other documentation that describes and supports the business transaction
- Submit completed form and documentation via email to your OSP Grant/Contract Accountant with the following subject line: SF00000XXXXX.
The Cost Transfer Justification Form

Form is designed to clearly document:

- Why was the receiving account not originally charged
- Why is the charge more appropriate for the account where it is being transferred. Specifically, how is the charge related to the advance of the scope of work of the project.
- If this transfer is over 90-days:
  - Why did it take so long to identify this mischarge
  - What corrective action will the department undertake to ensure such circumstances do not occur in the future.
What is considered not a true cost transfer

- Transfers of true overdrafts (off sponsored awards to unrestricted accounts). These transfers may be made in lump sum entries rather than identifying individual transactions.

- Transfers of expenditures between grants under the same award (i.e. between parent and/or child accounts), in cases where there are no sponsor restrictions on the funds set aside in a particular sub account.

- Transfers of pre-award expenditures that were charged to a departmental account, if the costs are allowable and allocable, and were incurred within 90 days before the beginning date of the award.

- Transfers of expenditures incurred within the period of performance of the award but charged to a departmental, unrestricted, or other non-sponsored account while awaiting the fully executed sponsored agreement.

  - To avoid unnecessary cost transfers, an advance account should be requested from OSP by completing the UPAS form.

- Transfer of an incorrect charge from a sponsored account to a non-sponsored account.

- Caution: An account for an existing sponsored agreement must never be used as a holding account for any pre-award expenses, including labor.
Cost Transfers: Inappropriate Circumstances

- Inappropriate circumstances include, but are not limited to, the following:
  - transfers solely for the purpose of utilizing an unexpended balance;
  - transfers for the purpose of avoiding a cost overrun by charging another, unrelated sponsored agreement;
  - transfers that circumvent pre- and/or post-award restrictions;
  - transfers to avoid restrictions imposed by law or by terms of the sponsored agreement;
  - transfers to activities sponsored by industry, foreign governments or other sponsors shifted to federally sponsored agreements;
  - other transfers for reasons of convenience.
An expense not substantiated within 60 days is considered gross income subject to tax withholding and will be processed through payroll and reported on the employee's W-2 form.

For this type of cost transfer the departments must include the below statement to use as justification for Question #1 on the cost transfer form:

“Transferring expense(s) that were approved on ER-XXXXXXX to appropriate grant(s). Because these expenses were not substantiated within 60 days they were required to be processed through payroll. This journal transfers the direct expenses onto the appropriate grant(s)."
Payroll Accounting Adjustments (PAA’s)

- Payroll Accounting Adjustments (PAA’s) are considered cost transfers of salary and must be in compliance with the University’s Cost Transfer Policy.

- Departments are responsible for periodically reviewing effort distribution for appropriateness and accuracy of effort expended on all projects. It is recommended that the review be done monthly or no less frequently than quarterly. The Uniform Guidance requires adjustments to salary allocations in response to significant changes in work activity. Failure to adjust salary allocations in a timely manner will result in errors to salary charges to grants, leading to over/under recovery of salaries as well as resulting in non-compliance.
Procedure for PAA’s Made Prior To the Certification of Effort

- Modify the employee’s costing allocation in Workday
- Submit a PAA for any retroactive changes in effort
  - Include the Cost Transfer Explanation and Justification Form as an attachment to the PAA in Workday
- Submit certified effort report.
PAA’s Made After Effort Report Has Been Signed

- For PAA’s processed after the effort report has been signed will require all 4 questions to be answered on the cost transfer explanation and justification form. A review of the department’s certification procedures and the corrective action that will take place to avoid recertification in the future is required on the form.

- OSP will review and consider the request. If the PAA is approved by OSP and Payroll Office, the Effort Certification Administrator is then notified to run a recertification report by OSP on that employee. The new payroll accounting adjustments will then be reflected on the effort report.

- Changes to a certified effort report are highly discouraged and not allowed except in limited circumstances.
Best Practices – Get it right the first time!

- Active account management – timely, proactive reviews with PI’s regarding grant activity.
- Charge costs to the correct award initially and ensure they are allowable and allocable to the award.
- When costs are shared by more than one award, use an allocation methodology.
Best Practices Continued…

- Request advance accounts via a UPAS form to charge costs incurred prior to receipt of notice of grant award.
- Update accounts for items such as salaries and standing purchase orders in a timely manner when award numbers change.
- When in doubt...call your accountant!
Please Avoid

- Transfers with inadequate explanations.
- Explanations that raise more questions than answers.
- Using any sponsored project as a holding account, including for competing continuations of the same project for which the notice of award or the new account number has not yet been received.
- Incomplete explanations.
  - Using “to correct an error” or “to transfer to correct project” as an explanation.
Please Avoid Continued:

- Processing cost transfers to a sponsored award to spend down the funds or remove overage to other unrelated grant funding.
- Transferring costs to avoid restrictions imposed by the terms of the sponsored agreement.
Red Flags to Auditors

- Cost transfers to or between sponsored awards
- Cost transfers older than 90 days after the original transaction date
- Cost transfers in the last month of the award or after the award has expired
- Large numbers of cost transfers
- Round numbers in a cost transfer – they may be an indicator of a plugged number rather than actuals
- Cost Transfers that result in recertification
- Cost transfers that remove overages
Are the following wordings appropriate and adequate? Why or Why Not?

- The attached cost transfer is late because I was on vacation and could not get it done within 90 days.

- The attached cost transfer is over 90 days because the graduate school did not change the post doc’s appointment form as requested. We made a request about once a month and they completed the change and the journal last week.
What should you do?

- A PI asks you to move $22,000 in supplies from his sponsored account in Engineering to a subaccount (child account / same award) issued to Chemistry. When asked for a justification you are told that “we are overspent and they still have money.”
Is the following considered a cost transfer?

- A PI tells you that they would like to transfer $10,000 in expenses from their grant to a non-sponsored account. The expenses relate to the purchase of DNA sequencing that were purchased five months ago.
Is the following considered a cost transfer?

- Professor Jones travels to India for an archaeological dig for their research project entitled “Secret Cults and the Temple of Doom.” They submit a reimbursement form for their travel expenses. When the reimbursement was processed, the airfare was charged to a domestic travel worktag rather than the foreign travel worktag. The administrator submits a cost transfer request to correct it.
Dr. Researcher’s grant ended in May 2016. The administrator realized in October 2016 that a $455 lab supply order should have been charged to the old grant. The administrator submits a cost transfer request to move the charge.
Questions

If you have any questions please submit them to resadmin@brown.edu and be sure to note the title of this class.

Useful Link

- [https://www.brown.edu/research/conducting-research-brown/managing-award/award-management/cost-transfer-policy](https://www.brown.edu/research/conducting-research-brown/managing-award/award-management/cost-transfer-policy)