Cost Transfer Policy Update

Vanessa L. Peoples
Deputy Director, Office of Sponsored Research
What Will We Cover?

- Definition of cost transfer
- Policy and best practices to avoid cost transfers
- Back up documentation requirements
- Justification examples
- Audit implications
What is a Cost Transfer?

• Cost transfer is an after-the-fact reallocation of a cost from one source of funding to another

• Examples
  – Moving expense from one project ID to another project ID
  – Moving expense to/from a project ID to a non project ID source
What is a Cost Transfer?

• Can be:
  – Salary expenditures: Labor, including salaries, wages, and benefits
  – Non-salary expenditures: Non-Labor, all costs other than salaries wages, and benefits (e.g., chemicals, lab supplies, equipment, travel, internal service provider charges)
What Is Not a Cost Transfer?

- Purchasing card reconciliation
- Interdepartmental billings (ex. DLAM)
- Recoding expense on the same project (ex. Fund, source or department)
UNC Cost Transfer Policy

• Draft policy updated based on recent DHHS OIG audit

• Addresses the following:
  – Compliance with federal, sponsor and university policies
  – Timeliness of transfers
  – Proper documentation
  – Roles and responsibilities
UNC Cost Transfer Policy

• **Office of Management and Budget (OMB):** Any costs allocable to a particular sponsored agreement under the standards provided 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:** 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 that the transfer was made “to correct error” or “to transfer to correct project” is not sufficient. Transfers of costs from one budget period to the next solely to cover cost overruns are not allowable.
Criteria

• Conformance with university and sponsor policies
  – allowable, allocable, reasonable, and consistent

• Timely
  – should be prepared and submitted as soon as the need for a transfer is identified, but no later than 90 days after the posting is made
  – The government expects that costs are charged appropriately at the time incurred and that significant adjustments should not be required if adequate financial management practices and policies exist
Criteria

• Fully documented
  – Reason for the transfer
  – Benefit to the receiving project
  – Allowability and allocability to the receiving project
  – Reason for timing of transfer

• Supported by appropriate approvals
  – Reviewed with PI
  – Approved by someone of knowledge other than the initiator
Cost Transfer Justification Samples

- **Questionable Justification** – “To charge appropriate project.”

  - Reason – This does not adequately explain why the wrong project was charged. Why is the new project being charged more appropriate? How was the transfer amount determined?

  - Remedy – Explain why the project being charged is appropriate and how the amount was determined.

- **Acceptable Justification** – “To transfer 100% of Chemistry Storeroom charges for graduate student John James for the month of February, to reflect the project where the supplies were used and the student’s effort is now being charged. The Chemistry Storeroom has been notified of the change in project ID for this student.”
Cost Transfer Justification Samples

• **Questionable Justification** – “To transfer $500 of supply costs to the appropriate project.”

  • *Reason* – The amount transferred must be adequately justified as well as the reason for the transfer. Are projects related? Why wasn’t the order charged to the proper project initially?

  • *Remedy* – Explain how the amount was determined and how the expenditure benefits the project being charged.

• **Acceptable Justification** – “To transfer 50% of the supplies to the PI’s new NIH project. Supplies are to be shared equally between the two related projects that used the supplies per lab usage records. The new NIH project was awarded two days after the supplies were ordered.”
Cost Transfer Justification Samples

- **Questionable Justification** – “To split maintenance charges between related projects.”
  - **Reason** – The amount transferred must be adequately justified and reasonable. Also, indicate whether the equipment was used to support the project being charged.
  - **Remedy** – Indicate how the amount transferred was determined and why the project being charged now wasn’t charged originally.
- **Acceptable Justification** – “To transfer 50% of the maintenance costs to the PI’s NSF project. The equipment is to be used equally between the two related projects. The administrator was not informed that the equipment was also going to be used for the NSF award.”
Cost Transfer Justification Samples

- **Questionable Justification** – “To move charge from department.”

- **Reason** – The amount transferred must be adequately justified and reasonable. Also, indicate how the charge was used to support the project being charged.

- **Remedy** – Indicate how the amount transferred was determined and why the project being charged now wasn’t charged originally.

- **Acceptable Justification** – “The start date of the grant is December 1, however the project ID was not established in the financial system until February 15. The PI needed to purchase some materials to begin work on the project in December, thus they were charged to the department until the project was established.”
Ways to Initiate Cost Transfers

• Correcting journal entry
• Correcting voucher journal entry
• Fund swap
• Retro salary distribution tool
Real World Audit Findings at UNC

• DHHS OIG Audit
• Initiated June 2012
• Review of two prior fiscal years (2010 & 2011)
• $298K of the total $352K disallowance was related to cost transfers
Real World Audit Findings at UNC

• The types of questions raised by auditors include:
  – How did the PI know that those supplies benefited the other project?
  – Did he or she review an expenditure statement or a project budget?
  – Why was this error not identified in a timely manner?
Real World Audit Findings

- Institutions have a responsibility to use funds in accordance with applicable law and sponsor terms and conditions.

- The federal government scrutinizes cost transfers closely for indications of cost misallocation, and often disallows costs transferred into federal accounts on that basis, or because of non-compliance with timing, documentation, and procedural requirements.

- Frequent cost transfers and cost transfers made long after the original cost is incurred (even if valid) raise questions about the reliability of the institution’s accounting system and internal controls.
Steps to Mitigate Cost Transfers

• Prior planning
  – Align recording of expenses with budget and budget justifications
  – Frequent meetings with principal investigators

• Project reconciliations
  – Monthly but no less than quarterly