



#### Policy 4.4.4

Volume 4, Academic Affairs

Chapter 4, Academic Research and Sponsored Projects

Section 4, Cost Transfers on Externally-Sponsored Projects

Approval Authority: Board of Regents

Responsible Executive: Vice President for Finance and Administration

Responsible Office(s): Sponsored Programs/Sponsored Programs  
Accounting

Effective: October 22, 2015

Issued: January 26, 2009

Last Revised: October 22, 2015

Next Review Date: Fall 2020

## Cost Transfers on Externally Sponsored Projects

### Policy Statement

Cost transfers must meet conditions for allocability, allowability, reasonableness and consistency established under federal guidelines. Cost transfers must normally be made within 90 days of the incurred expenditure.

This policy sets forth conditions for the transfer of charges from one sponsored program to another or from a sponsored program to a University account. OMB Circular 2 CFR 200 (*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*) establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions, as well as proper documentation required. To comply with the cost allowability and allocability requirements, it is necessary to explain and justify transfers of costs from one account to another.

### Entities Affected by the Policy

- Departments
- Colleges
- Units involved with externally-sponsored projects

### Policy Background

A cost transfer is an after-the-fact reallocation of a cost from one account to another. Although it is preferable to charge costs to the correct account when they are incurred, cost transfers are on occasion necessary to correct accounting errors but not as a form of fiscal or financial management. To be allowable, cost transfers must be timely and fully documented, they must conform to University and sponsor allowability standards (allowable under the terms of the sponsor agreement), and they must have appropriate authorization.

### Criteria

The University's cost transfer policy is applicable to all grants and contracts regardless of the source of funding. Cost transfers must stand the test of being allowable, applicable, and reasonable in order to be deemed an allowable charge to a sponsored project. Cost transfers are almost always reviewed when an account, department, or university is audited. When reviewing cost transfers, the burden of proof regarding allowability is on the project director.

*Cost Transfer Allowability*

In order to transfer cost to a sponsored project, the cost must meet the following:

- Allowability: It must be allowable under the terms and conditions of the award, including the authorized budget and applicable regulations.
- Allocability: The goods or services must benefit the award charged. Goods or services shared by more than one project are allocable in proportions that can be approximated through actual use.
- Reasonableness: A cost may be considered reasonable if the nature of the goods or service acquired, and the amount paid, reflect the action that a prudent person would have taken at the time the decision to incur the cost was made.
- Consistency: The application of cost must be given consistent treatment within established University policies and procedures, including Generally Accepted Accounting Principles and Cost Accounting Standards as issued by the Federal Cost Accounting Board.
- Timeliness: All adjustments should be made within 90 days of the original transaction and 30 days prior to the date of the final report due to the sponsor. Exceptions require full documentation of reason for delay and are conditional, subject to prior approval by the Division of Sponsored Programs

If an expense cannot meet the above criteria, it is NOT eligible to be charged against the sponsored project.

*Criteria for Cost Transfers*

- Cost transfers shall be allowable only with proper justification, documentation, and approval. A Cost Transfer Request form must be completed.
- The transfer must relate to a specific item of cost incurred by the unit preparing the adjustment. The quantity and goods or services must be specified.
- Each transfer must be in proportion to the benefits received from the goods and services.
- Transfers must be in the same amount as the original charge unless a portion of the expense is to be transferred. If only a portion is transferred, a clear explanation needs to be given as to the basis for the division of cost.
- All expenditures must be in compliance with University policies and the requirements of the funding agency.
- The allocations must be reasonable, allowable, allocable, and consistent. The department must maintain the appropriate records and usage logs to substantiate all charges redistributed.
- All adjustments should be made within 90 days of the original transaction. Accurate and timely reporting of expenditures impacts the production of financial reports and invoices in meeting campus and funding agency requirements. If, because of unavoidable circumstances, the adjustment is made after 90 days, a full written explanation of the late adjustment must be documented and approved by Sponsored Programs Accounting.

*Preparation of Cost Transfers/Expenditure Adjustments*

- Appropriate Reasons for Cost Transfers – Once an entry has been recorded in the general ledger, cost transfers may be made only in the following situations:
  - To correct an erroneous recording when the original source document or subsequent interim transaction (e.g. PO, Payroll transaction, Journal, AP transaction, etc.) contained an incorrect account or amount.
  - To distribute/allocate certain high numerical, but small individual charges, such as copy machine costs, mailing charges, telephone charges, office supplies, or fax charges billed to a central department, but may be proportionally applied to other activities, project, or funds under the jurisdiction of the department.
  - To record a change in use of goods or services, for example, a case of beakers originally ordered for and charged to a teaching program but subsequently required by and transferred to a research project.
  - To transfer labor dollars to align with actual effort devoted. (Must be consistent with the Time and Effort certification documents for the specified period).
  - To correct a clerical or bookkeeping error, such as transposition of numbers.
  - To redistribute purchasing card charges among object codes within the same project.
- Inappropriate Types of Cost Transfers – Cost Transfers should not be made:
  - For reasons of convenience.
  - After the allowable 90 day time frame. Extenuating circumstances will be reviewed and considered on a case-by-case basis by grant administration.

## Policy 4.4.4

Volume 4, Academic Affairs  
Chapter 4, University Research

### Section 4, Cost Transfers on Externally-Sponsored Projects

- Where labor costs do not accurately depict certified effort on the Time and Effort Certification documents.
- To enable sponsored project accounts to be used as “holding,” “clearing,” or “rotating” accounts to redistribute costs to other accounts at a later date.
- To transfer costs from any unrelated account in overdraft status to a sponsored project account (except where the original expenses were incorrectly charged).
- For the sole intent of using up the unexpended balance in the last months of a project.
- For the costs incurred prior to the start date of the award. Costs incurred prior to the start date of the award are considered “pre-award” costs. A pre-award account must be requested to charge allowable pre-award costs, which would eliminate the necessity for cost transfers.
  - Cost transfers are not allowable following the submission of the final expenditure report to the sponsor, unless they are for unallowable cost.
  - Cost will not normally be transferred more than once. Since the original cost transfer has already been justified, documented, reviewed, and accepted as appropriate, a second transfer of the same cost is highly suspect and should be unnecessary.

#### *Required Documentation*

The official documentation for a cost transfer shall include a complete explanation of the reason the transfer is being made. Explanations such as “to correct error” or “to transfer to correct account” are not sufficient.

The request for cost transfer must include:

- Specific identification of the original charge (copy of the origination documents, such as purchase orders, vendor invoices, travel vouchers, or other documentation as appropriate);
- Justification of the appropriateness of the charge to the receiving account;
- A full explanation of why the transfer is necessary; and
- The signature of the project director.

#### *Record Retention*

Documentation for transfers must be maintained within the department for three years after the completion of the entire project. If the project has been selected for audit, all documentation must be maintained until after the final audit response is issued.

## Procedures

### Determination of Allowable, Allocable, and Reasonable Cost Transfers

1. To determine whether a particular cost is allowable, allocable, and reasonable, apply the “prudent person” test. If the answer to any of the following questions is “no” then the cost probably should **not** be charged to the project:
  - i) Is the cost generally accepted as necessary for the performance of the technical scope of the project or similar projects?
  - ii) Does the cost have an “arms-length” relationship between the investigator and merchants or subcontractors? (For example, goods and services should not be purchased from a friend or relative.)
  - iii) Would you be comfortable explaining to someone outside the University why you charged this item to your project?
  - iv) Is charging this cost consistent with EKU’s policies, procedures, and practices?
2. For cost transfers to sponsored awards, it is the *purpose* of the charge, not necessarily the type of charge, that determines its allowability. Costs that do not meet these tests may need to be charged to non-sponsored funds.

## Definitions

<b>Allowable</b>	To be considered allowable, cost transfers must be timely, documented, and explained in detail; adhere to University and sponsor standards; and have all appropriate authorizing signatures
<b>Allocable</b>	A cost that is related to the project or incurred solely to advance the work under a sponsored agreement or benefit both the sponsored agreement and other work of the institution
<b>Cost Transfer</b>	An after-the-fact reallocation of the cost, either salary or non-salary, to a sponsored project within a 90-calendar-day period from the accounting date of a transaction
<b>Documentation</b>	Original invoice, credit card receipt, and any other documentation that supports the transaction
<b>Effort</b>	A percentage of time devoted by an individual to a sponsored project
<b>University</b>	Eastern Kentucky University

## Responsibilities

<b>Controller's Office</b>	<ul style="list-style-type: none"><li>▪ Provide guidance on policy interpretation and implementation</li></ul>
<b>Project Directors</b>	<ul style="list-style-type: none"><li>▪ Assure that costs in proposal budgets are appropriate for the scope of work and are justified</li><li>▪ Review costs charged to sponsored awards for compliance with sponsor and University policy</li><li>▪ Determine the appropriateness of and provide justification for rebudgeting actions</li></ul>
<b>Sponsored Programs</b>	<ul style="list-style-type: none"><li>▪ Assure that costs in proposal budgets are appropriate for the scope of work and are justified</li><li>▪ Review proposal budgets for justification of costs</li><li>▪ Provide guidance on policy implementation</li><li>▪ Monitor costs in proposal budgets for consistent treatment</li></ul>
<b>Sponsored Programs Accounting</b>	<ul style="list-style-type: none"><li>▪ Monitor costs charged to sponsored awards for compliance with sponsor and University policy</li><li>▪ Provide guidance on policy implementation</li><li>▪ Provides ongoing training opportunities for faculty and staff</li><li>▪ Monitors costs charged to sponsored awards for consistent treatment</li></ul>

## Violations of the Policy

Policy compliance is the joint responsibility of all involved. If non-compliance issues are identified by the Office of Graduate Education and Research, corrective action may be necessary and shall be completed following consultation with the Principal Investigator, respective Dean, Department Chair, and/or Financial Manager. Corrective action may include,

but is not limited to, movement of unallowable or inappropriate charges from grant accounts to departmental, college, or other university accounts, suspension of grant accounts, and/or withdrawal of a proposal or award. Any actions deemed necessary in response to policy non-compliance may be appealed to the Provost and/or Executive Vice President for Administration.

### Interpreting Authority

- Vice President for Finance and Administration

### Statutory or Regulatory References

OMB Circular 2 CFR 200: [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tp](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tp)

### Relevant Links

[Sponsored Programs website](#)

### Policy Adoption Review and Approval

#### Policy Revised

<u>Date</u>	<u>Entity</u>	<u>Action</u>
October 22, 2015	Vice Provost	Editorial

#### Policy Issued

<u>Date</u>	<u>Entity</u>	<u>Action</u>
<b>January 26, 2009</b>	<b>Board of Regents</b>	<b>Adopted</b>
December 19, 2008	President Doug Whitlock	Approved
October 6, 2008	Faculty Senate	Approved