



## UNIVERSITY POLICY

**SUBJECT:** FINANCIAL AFFAIRS                      **TITLE:** GRANTS AND CONTRACTS: COST TRANSFER

**CODING:** 00-01-50-125:00                      **ADOPTED:** 06/24/05                      **AMENDED:** 07/1/11

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### I. PURPOSE

This University policy is intended to ensure Federal and State cost transfers that involve sponsored project funds comply with the requirements contained in the Federal Regulations. The policy is also intended to provide guidance for faculty and staff on the subject of cost transfer involving sponsored agreements.

### II. APPLICABILITY

Under the direction of the Vice President for Research, Vice President for Finance and Treasurer, and the Research Deans shall ensure compliance with this policy. The Office of Grants and Contracts and the Principal Investigators shall implement this policy.

### III. DEFINITION

Cost Transfer - is an expense (both salary and non-salary) that is transferred from one Federal or State Grant to an alternate cost center, and vice versa, after the month the initial expense is recorded in the financial accounting system.

### IV. BACKGROUND

The Federal government has established policies, concerning the assignment of costs to federally sponsored agreements, in OMB circular A-21, Cost Principles for Educational Institutions, OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, and specific agency policies on cost transfers. These policies require that universities establish internal controls to ensure that costs associated with a particular sponsored agreement are allowable, reasonable, allocable and timely.

### V. REFERENCES

- A. OMB circular A-21, Cost Principles for Educational Institutions
- B. OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, and specific agency policies on cost transfers

The following policy provides additional and related information:

- C. Grants and Contracts: Administration                      00-01-50-20:25

## VI. POLICY

Some reasons why cost transfer may be necessary are as follows:

- distribute clearing funds expenses
- correct salary distribution estimates
- correct clerical or bookkeeping errors
- transfers pre-award costs

### A. Requirements:

1. Cost transfers should be made within 3 months following the month in which the costs were originally recorded in the financial accounting system. The Cost Transfer must be supported by a statement justifying the reason for the transfer and how it relates to the project, explanation that clearly explains how the errors occurred, copies of the expense documentation (invoices, travel expense report, etc) being transferred, a statement that defines the measures taken to prevent a reoccurrence of the error and certification of the correctness of the new change by a responsible Organizational Official of the grantee. An explanation merely stating that the transfer was made to “correct error” or “to transfer to correct project” is not sufficient. A Transfer of costs from one budget period to the next solely to cover cost overruns is not allowable.
2. Grantees must maintain copies of the approved cost transfers as well as the supporting documentation that must be made available for audit or other review. Frequent errors in recording costs may indicate the need for accounting system improvements and/or enhanced internal controls.
3. The Grants Management Office (GMO) monitors grantee expenditure rates within each budget period and within the overall project period of individual grants. The funding that agencies provides for each budget period is based on an assessment of the effort to be performed during that period grantee’s associated budget. Although the circulars(A-21, A-110, etc) allows grantees certain flexibilities with respect to rebudgeting, unobligated balances, and pre-award costs, agencies expects the rate and types of expenditures to be consistent with the approved project and budget and may question or restrict expenditures that appear inconsistent with these expectations.
4. The GMO reviews grantee cash draw-downs to determine whether they indicate any pattern of accelerated or delayed expenditures. Expenditure patterns are of particular concern because they may indicate a deficiency in the grantee’s financial management system and /or internal controls. Accelerated or delayed expenditures may result in a grantee’s inability to complete the project within the approved budget and period of performance. In these situations, the GMO may seek additional information from the grantee and may make any necessary and appropriate adjustments.

### B. Cost Transfer Criteria

To ensure that sponsored project cost transfers comply with federal regulations, the Office of University Finance has established the criteria that a cost transfer must meet. Below is a description of each cost transfer grouping and the cost transfer criteria that apply to each group.

#### 1. Cost Transfers to correct Salary Distribution Estimates

The University’s payroll system distributes an employee’s salary charges to the sponsored project and other University indices, based upon a Personnel Action Form submitted for the employee. The distribution indices entered on those forms are based

upon the employee's projected work activities. If the projected or actual work activities change, a Change in Source of Funding form with the new distributions should be prepared and circulated for approval. In some cases, the work plan changes are not known in time for payroll forms to be revised and submitted to Grants prior to an upcoming payroll. In those cases, the payroll system will distribute the salary expense to an incorrect index therefore a salary cost transfer is needed to correct the error.

A salary cost transfer must be requested by completing a Cost transfer Form along with a Change in Source of Funding Form. The transfer must be made within 3 months following the month in which the expense was originally recorded on the Financial Accounting System. The cost transfer must be supported by an explanation that describes why the cost transfer is necessary. An explanation that merely states, "To apply salary where effort was spent," is unacceptable. Examples of acceptable explanations include the following:

- a. Payroll forms were not processed timely because the financial plan for the award was being revised.
- b. Individual transferred from one project to another, but the appropriate paperwork could not be processed before the payroll deadlines.
- c. Individual was transferred from one project to another for only one pay period.

## 2. Cost Transfers to Correct Clerical and Bookkeeping Errors

Cost transfers that are necessary to correct clerical or bookkeeping errors will be allowed up to 3 months following the month in which the cost was originally recorded on the Financial Accounting System. Such transfers, however, must be supported by an explanation that describes how the error occurred.

- a. Examples of adequate explanations:
  - Charges had to be placed against an alternate index (Non-Grants/Unrestricted) because an authorized signer for the award index was unavailable. (Note: A grant or contract index should not be used as the alternate index.)
  - Recharge center was instructed to change the index, but failed to do so.
  - Data entry error occurred when entering the index number on the original transaction.
  - The individual that prepared the original transaction misunderstood the Principal Investigator's instructions.
  - The Principal Investigator mistakenly gave the wrong Index to the individual that processed the original transaction.
- b. Examples of Inadequate Explanations:
  - To correct clerical error.
  - To charge correct index.

- To correct University Finance Office error, to correct Payroll's error, to correct per the Principal Investigator, etc.
- To use up budget balance.
- To transfer overdraft.
- To charge index where supplies were used.

3. Cost Transfers to Move Expense between Projects that are related

When the same person serves as the Principal Investigator/Project Director (PI/PD) under two or more federal awards, the ostensibly discrete projects supported by those awards may actually comprise a single program of related projects. In some cases, even awards with different PI/PDs may support projects that comprise such a program.

The concept of related projects differs from the concept of common costs. Common costs are costs that are incurred for the benefit of two or more projects and allocated between those projects on some reasonable basis.

Cost transfers between projects that comprise a program of related projects may be made if the following conditions are met:

- The transfer is made within 3 months following the month in which the cost was originally recorded in the Financial Accounting system, and
- The Principal Investigator is able to determine and justify the allocation of the costs to each related project.

4. Cost Transfers to Distribute Departmental Clearing Fund Expenses

Expenses sometimes are initially charged to a "clearing" fund because the correct allocation of the expense cannot be determined at the time the expenses are first incurred. Bulk purchases, such as postage, copying cost, and some lab supply orders account for most of the expenses charged to clearing funds. Telecommunications and overnight delivery expense bills are examples of non-bulk purchases that sometimes have to be charged to clearing funds. When it becomes known what index actually benefited from the purchases the expenses are distributed (i.e., transferred) to those indices.

The Clearing Fund Transfer Form (EXHIBIT A) can be used to distribute expenses for bulk purchases when the following conditions exist:

- The original costs are accumulated in a clearing fund.
- The correct distribution of expenses cannot be determined at the time the expense is first incurred.
- The custodian (account receiving the credit) can measure and document the cost with a high degree of accuracy.
- The charges reflect only actual costs and are allocated on a cost per unit basis. The costs cannot include any charges for University personnel or equipment purchases.

- The custodian is responsible for providing and maintaining documentation to support quantity and unit cost information.

Cost transfers that distribute expenses for non-bulk purchases (such as telecommunication and overnight delivery bills) must be requested on a Cost Transfer Form (EXHIBIT B). The cost transfer must be supported by an explanation that states that the costs were charged to the clearing fund until it could be determined how the costs were to be allocated.

Cost transfers initiated to allocate clearing fund expenses must be made within 90 days after the month in which the expenses were initially recorded in the Financial Accounting System.

5. Cost Transfers to Move Pre-Award Costs

There are a number of agencies which permit pre-award spending which are costs incurred up to 3 months prior to the beginning date of the award. If pre-award spending is allowed an "advance index" should be established to record allowable expenses 3 months prior to the expected sponsored project award date which would eliminate the necessity of generating a cost transfer. Without an "advance index" pre-award expenses should be transferred within 3 months, from the start date of the sponsored project, to the Index created specifically for that award. Federal or a State grant/contract should not be used to house Pre Award.

C. Cost Transfer not requiring a Cost Transfer Form:

There are a number of instances for which a Cost Transfer Form is not needed:

1. Cost transfers made within the same accounting period (month) of the original expenditure.
2. Cost transfers of aggregate expenses totaling less than \$500.00.
3. Cost transfers to correct improperly classified account codes.
4. Cost transfers between Parent Grant and Internal Sub Grants having concurrent budget periods.
5. Costs transfers between one segments of a grant to the non competing continuation year grant. If a new index is create for the continuation grant since the agency requires a monthly/quarterly/annual financial report any expenditure incurred after the end date of the prior segment can be automatically transferred without a cost transfer.
6. Cost transfers between one segments of a grant to the competing renewal grant as long as the award is granted carry-forward authority for transferring the balance from one budget period to the next without the sponsor's prior approval and does not require annual financial reporting for each budget period.
7. Routine Inter Departmental Transfers (IDT's) initiated by the Service Department.
8. Cost transfers which do not involve Restricted Funds awarded with Federal or State funds.

D. Circumstances justifying a Cost Transfer made after 3 months following the month in which the costs were originally recorded in the financial system:

If more than 3 months have passed after the issuance of the University Financial Statements in which the original charge had been made a cost transfer will only be granted in extenuating circumstances:

Examples of extenuating circumstances are listed below:

1. Late issuance of a Notice of Grant Award or Contract and full execution of a subcontract subsequent to the start of a budget year or other period of performance.
2. Failure of another department to take action on a properly submitted Cost Transfer Form.
3. Costs transfer is initiated within the allowable timeframe but returned for additional signatures, justification and/or supporting documentation.
4. Transfer expenditures on a Federal/State project to a Non-Grant/Unrestricted Fund which was incurred prior to the expiration date in order to eliminate a deficit or after the expiration date in order for the grant to be closed and inactivated.
5. An extenuating or unusual circumstance as deemed appropriate and authorized by the Responsible Organizational Official of the grantee.

Cost Transfers that would result in the revision of a Final Financial Status Report or final Invoice will generally not be approved.

Please note: At no time should a federally funded account be used as a holding account for expenses which will subsequently be transferred.

E. Responsibilities:

Principal Investigators are in the best position to determine what research costs are necessary for performance of a sponsored agreement. Consequently, they must also assume primary responsibility for justifying cost transfer to or between their sponsored agreements when such transfers are necessary. The Principal Investigators must review the fiscal status of their sponsored agreements each month and promptly correct expense transactions that are incorrectly recorded. If cost transfers are regularly submitted several months after the expense is initially recorded, one may conclude that a Principal Investigator does not take his/her fiscal responsibilities seriously. Ultimately, Principal Investigators are responsible for resolving any cost transfers disallowed as the result of an audit.

VII. EXHIBITS

- A. Clearing Fund Transfer Form
- B. Cost Transfer Between Projects Approval Form

By Direction of the President:

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Vice President for Finance and Treasurer



**Cost Transfer Between Projects Approval Form**

**1. Enter the information requested in the table below for the Indexes to be Transfer From and To.**

	Transfer Expense From:	Transfer Expense To:
UMDNJ Index Number		
Title of Project		
Agency Grant Number		
Funding Agency		
Budget Period Beginning and Ending date	Start Date: Ending Date:	Start Date: Ending Date:

Unit: \_\_\_\_\_ Department: \_\_\_\_\_ Print Name of PI: \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Unit: \_\_\_\_\_ Department: \_\_\_\_\_ Print Name of PI: \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

**2. Detail of Expenditures to be transferred: List by Purchase Order Numbers, Honorarium, Travel Expenditure (TE Number), etc. Copies of the vendor's invoice, honorarium, Travel expense report, etc must be attached to this form.**

Document Number	Account Code #	Amount of Expense

**3. A) Please provide the month and year the expense was posted in the Banner System.** \_\_\_\_\_

B) Fully justify the reason for the transfer and how it relates to the project. (Attach separate sheet if more space is needed)

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**C) Explain how the error occurred and indicate what measures are being taken to avoid cost transfers in the future. (Attach separate sheet if more space is needed)**

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Chairman (PRINT) \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Grants Manager (PRINT) \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Institutional Officer (PRINT) \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Posted by: \_\_\_\_\_ Date \_\_\_\_\_