



# Cost Transfers

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## For Sponsored Agreements

New Mexico Tech Business Office  
Last modified June 17, 2010

The purpose of this document is to provide information about cost transfers, including PI responsibility, and guidelines for cost transfers.

This document is continually being updated and we would appreciate any information and/or insight which would help us develop stronger policies for NMIMT's research community.

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## I. Cost Transfers

A cost transfer is defined as a reallocation or redistribution of a previously charged expenditure. Examples where cost transfers may be required include errors due to clerical error or data input errors (transposition or other inadvertent error of the FUND, account code or dollar amount of the transaction), and redistribution of charges between active FUNDS established under the same grant code etc.

Note: Pre-award costs should be recorded in a bridge FUND (secured by the Principal Investigator from Research and Economic Development (R&ED) and/or Administration) created specifically for the purpose of recording such costs, so that no transfer is necessary.

Cost transfer to or from a sponsored project should meet the following guidelines:

- Initiated promptly by the Principal Investigator (PI) in writing to the financial administrator of the affected award;
- Supported by documentation justifying the transfer; and
- Confirmed by the PI as to the correctness.

Transfers to or between sponsored projects always represent an area of great audit interest. Consequently, adjusting journal entries must be sufficiently supported before the financial administrator submits the request to general accounting for entry into the financial system.

To ensure the approval of the cost transfer, the journal voucher (JV) request must contain, at minimum, the following items:

- Explanation of transaction and benefit to the project;
- Date when service was provided or cost incurred;
- Date and document number of the original transaction; and
- Preparer's name.

## II. Compliance Risks

Cost transfers – both into and out of sponsored programs – continue to be an area of great audit interest. The following list contains some compliance risks related to cost transfers:

- *An excessive number of cost transfers within the institution.* The National Institutes of Health's (NIH) *Grants Policy Statement* notes that excessive cost transfers may be an indication of poor internal controls. In essence, an excessive number of cost transfers begs the question, "Why was the correct project not charged correctly the first time?"
- *Transfers made near or after the end of a project that result in additional charges to a federal project.* Transfers of this nature are suspect because they give the appearance of either utilizing unexpended funds or moving deficits to another project. In both instances it is presumed that the costs are unallowable.
- *Transfers that give the appearance of moving deficits from one federal project to another.* According to NIH, these types of cost transfers are highly questionable and often questioned by auditors. These types of transfers are difficult to defend.
- *Salary cost transfers that are made after effort has been certified.* Effort certification shows that effort has been reviewed and judged to be reasonable. Auditors view as highly suspect any change in effort that results in an additional charge to a federal project that occurs after certification has occurred.
- *Transfers that provide an inadequate explanation.* Transfers explained by statements such as, "To charge correct project," or, "To correct error" would not be sufficient documentation in the event of an audit. Proper documentation includes adequate explanation of the specific nature of the error, any other reason(s) for the cost transfer (if applicable), the way in which the error occurred, and whether 90 days or more have passed since the original charge and, if so, the reason why the transfer was not processed in a timely manner.
- *Transfers made more than 90 days after the discovery of the error.* Agencies and federal auditors expect responsible individuals to review charges on a monthly basis so that corrections are made in a timely manner.

### III. Timing for Making Cost Transfers

Transfers with appropriate documentation should be initiated during (or within two months of) the month for which the charges are originally recorded in Banner. Transfers initiated after this cut off date are considered non-current and require additional justification explaining why the transfers were not made in a timely manner.

Note: Transfer requests may be disallowed.

#### **IV. Review of Sponsored Project Expenditures**

Salaries, travel, equipment, supplies, services and other direct costs are reported on the Banner system's monthly accounting statements (available online to PIs). Once these statements become available, the PI, (or other responsible official with suitable means of verification), is to verify that the charges are allowable and proper, and review the charges, identifying any additions or deletions and initiating corrections in accordance with this document.

These monthly confirmations must be signed by the PI or responsible official with suitable means of verification. These confirmations provide the basis of NMIMT reports to the federal government about the allowability, allocability and reasonability of charges for which the university is reimbursed either directly or indirectly.

**Signing these confirmations without knowledge of their correctness could be interpreted as a fraudulent action on the part of the PI and the university.**

**V. Allowability of Cost Transfers****A. Allowable**

Cost transfers may be made only if the charges meet all the following conditions:

- Allowed in accordance with the terms and conditions of the award document;
- Supported by documentation justifying the transfer; and
- Certified as to the correctness of the charge.

**B. Unallowable**

Federal cost principles do not permit the transfer of charges to another sponsored agreement if the justification for the transfer is for one or more of the following reasons:

- To meet deficiencies caused by overruns or other financial considerations;
- To avoid restrictions imposed by law or by the terms of the sponsored agreement; or
- For other reasons of convenience.

## **VI. Policy Authorities**

The policy authorities are the Director of Finance, the Director of Sponsored Projects and the Vice President of Administration and Finance.



## VII. References

National Association of College and University Business Officers (NACUBO). *Federal Grants News for Colleges and Universities*. June 2003.

National Council of University Research Administrators (NCURA). *Sponsored Research Administration*. January 2008.

National Institutes of Health (NIH), *Grants Policy Statement*. 2003