

Cost Transfer Policy

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Cost Transfer Policy

I. Purpose

The University of Kentucky has established the following policy regarding cost transfers to ensure compliance with the requirements of the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”). This policy has also been issued to ensure compliance with general sponsor terms and conditions as well as University regulations and business procedures. The policy is applied consistently to all sponsored projects.

As an institution receiving federal funding, the University of Kentucky assumes responsibility for the financial management of sponsored projects. Under the provisions of Uniform Guidance, the University is required to ensure that financial data is accurate, current, and complete in relation to performance. As it relates to cost transfers, sufficient controls and supporting documentation are necessary to ensure that expenses are appropriate to the account charged, generally allowable, reasonable, necessary, allocable, sufficiently documented and directly applicable to the activity represented by the charged account. If a cost transfer is necessary, it important that it is performed in a timely manner. Frequent, late, or insufficiently justified cost transfers may raise serious questions regarding the propriety of the transfers as well as indicate a need for improvement in the department/unit/college or University’s internal controls.

Effective July 1, 1990, the federal government required universities to retain external auditors to conduct extensive reviews of federal grant and contract expenditures, which includes the review of cost transfers. Federal auditors will review documentation to establish that expenses are appropriate, allowable, reasonable, necessary, allocable, sufficiently documented and directly applicable to the project. If a cost transfer does not meet these requirements, the dollar amount of the transfer will be disallowed and the college or unit responsible for the award will be responsible for the disallowed cost transfer. If cost transfers do not meet government requirement or exhibit a lack of appropriate internal controls, the auditors may extrapolate the disallowance and recommend disallowing a percentage of ALL cost transfers for a particular department/unit/college or University-wide.

II. Definitions

- *Corrective Action Plan:* A plan of action that is developed and implemented for the resolution of errors, the improvement of processes and procedures, and the elimination of deficient practices.
- *Cost principles:* OMB Uniform Guidance has established cost accounting principles governing whether costs may be charged to federal awards. The University generally applies these cost principles to the expenditure of all externally sponsored funds. Any cost charged to a sponsor must satisfy the following criteria:
 - *Allocable:* A cost is allocable to a project if the goods or services involved can be directly assigned to the project based on the benefit provided and necessity of the expense.
 - *Allowable:* Costs are considered allowable when they are permitted as a cost by federal regulation and/or by the terms of an award. Any costs expressly unallowable or mutually agreed to be unallowable shall be identified and excluded from any billing, claim, application, or proposal related to a sponsored project.

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- *Consistently treated*: All costs incurred for the same purpose, under the same circumstances, must be treated uniformly either as direct costs or as indirect (F&A) costs.
- *Documented*: Sufficient documentation that is required to specifically identify the original charge, justification of the appropriateness of the charge to the receiving account, and fully explains why an expense is necessary. Documentation should also demonstrate that an expense follows all costing principles.
- *Reasonable*: A cost may be considered reasonable if the nature of the goods or services, and the price paid for the goods or services, reflects the action that a prudent person would have taken given the prevailing circumstances at the time the direction to incur the expense was made.
- *Necessary*: A cost may be considered necessary when it is of a type generally recognized as ordinary and necessary for the operation of the non-federal entity or the proper and efficient performance of the sponsored project.
- *Cost transfer*: For the purpose of this policy, cost transfer is defined as a transfer of an expense, via journal voucher, onto a sponsored project that was previously recorded elsewhere on the University's general ledger and identified by the University as requiring institutional approval before it can be posted.
- *DHHS*: Department of Health and Human Services, also known as HHS.
- *Exception*: A cost transfer moving an original charge greater than 120 days (90 days for non-NIH DHHS sponsors), including the extenuating circumstances which prevented the errors from posting to the correct account within the first 120 days after the original transaction posting.
- *Expected Account*: Also referred to as an E-account, an expected account is created by the Office of Sponsored Projects Administration upon request for sponsored projects awaiting the receipt of a final award document.
- *General ledger (GL) account*: A six-digit code used in the SAP financial system to identify assets, liabilities, revenues, expenses, recharges and transfers.
 - Definitions relating to each GL account can be found under [BPM E-17-8 General Ledger \(GL\) Accounts](#).
- *Journal voucher (JV)*: The official document used to record assets, liabilities, revenues, expenses and transfers between SAP funds, cost centers, internal orders, WBS elements and general ledger (GL) accounts, including cost transfers.
 - Additional information can be found under [BPM E-4 Journal Vouchers](#).
- *NIH*: National Institutes of Health
- *Responsible department/unit*: The department or unit responsible for a grant account, identified on the General Data tab of GMGRANTD or listed on the PADR under Responsible Unit.
- *Uniform Guidance*: Refers to 2 CFR Part 200, entitled Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Issued by the Office of Management and Budget (OMB), it provides framework for grant management and serves as a set of rules and requirements for federal awards.

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III. Responsibilities

A. Department/Unit/College

1. It is the responsibility of each Principal Investigator (PI) to ensure all expenditures follow costing principles (e.g., allocable, allowable, consistently treated, documented, necessary and reasonable) for a sponsored project and in accordance with University policies and the terms and conditions governing the sponsored project account. In addition, the PI is responsible for ensuring all cost transfer and business procedure requirements are met and documented. In doing so, the PI shall ensure any personnel, travel, materials, or other items are purchased in accordance with all cost principles. The PI should review monthly PI Reports distributed by UK Analytics and promptly communicate questions, concerns and/or any required changes to the department/unit or college business staff.
2. It is the responsibility of department/unit or college business staff to complete monthly financial reconciliations, including review of labor distributions, to provide PIs with the appropriate monthly financial information and to assist PIs in the review of the information on a timely basis.
3. It is the responsibility of both the PI and department/unit or college business staff to complete the quarterly payroll confirmation process. The staff designated as the Primary Department Effort Coordinator should accurately pre-review assigned statements within the payroll confirmation system. The PI should review assigned statements within the payroll certification system and certify as required on a quarterly basis. As issues are identified, the department/unit or college business staff and PI should promptly communicate and process any necessary revisions.
4. It is the responsibility of both the PI and department/unit or college business staff to identify the need for a cost transfer. They are also responsible for the preparation, submission, and approval of cost transfer journal vouchers in compliance with the University Cost Transfer Policy, ensuring adherence to Uniform Guidance, sponsor requirements, and University business procedures in a timely manner for sponsored project accounts. At a minimum, the review of the PI Report and an account reconciliation should be completed monthly to promptly identify and correct errors.
5. The department/unit with which the sponsored project is affiliated is responsible for appropriately funding any cost transfer which is denied or disallowed due to the failure to meet timing or documentation requirements stated in the University Cost Transfer Policy. The responsible department/unit, college and/or Dean will be held financially responsible if any cost transfers are later disallowed during an audit. In such an instance, the new funding source cannot be another sponsored project.

B. Research Financial Services (RFS)

1. Maintain the University Cost Transfer Policy in accordance with Uniform Guidance (OMB 2 CFR Part 200) as applicable;
2. Provide the review, interpretation and implementation of the University Cost Transfer Policy and ensure compliance with University and federal policies and regulations;
3. Provide resources and guidance to campus consistent with the University Cost Transfer Policy;

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4. Review cost transfer requests to ensure adherence with the Cost Transfer Policy, Uniform Guidance, sponsor requirements, and University business procedures in a timely manner for sponsored project accounts; and
5. Approve or deny cost transfer journal vouchers submitted through JV workflow.

IV. Policy

A. Original charges

1. It is the expectation of the University that all costs are initially charged to the correct cost object regardless of the source of funds. Charges to sponsored projects should be made in accordance with University policies as well as the sponsor's terms and conditions. Charges should meet the following standards:
 - a. Necessary, allocable and reasonable for the performance of the award;
 - b. Allowable, meaning the cost is allowed by federal regulations, sponsor terms and conditions, including program specific and University policies as applicable;
 - c. Treated consistently, as a cost may not be assigned to a project as a direct cost if any other cost incurred under similar purposes or circumstances has been allocated as an indirect cost;
 - d. Meets the general ledger (GL) description;
 - e. Determined to be in accordance with generally accepted accounting principles (GAAP);
 - f. Not included as a cost or used to meet cost sharing or matching requirements of any other federally funded program during any current or prior period without sponsor approval; and
 - g. Adequately documented in accordance with University policies and defined in [BPM E-4 Journal Vouchers](#).
2. Costs relating to goods and services should be charged or allocated to the appropriate sponsored project at the time of the original purchase unless otherwise not possible due to special or extenuating circumstances.

B. Allowable cost transfers

1. While every effort should be made to charge all direct costs to the appropriate sponsored project when the expense was initially incurred, cost transfers are sometimes necessary. If a journal voucher or payroll retroactive adjustment has been submitted, it must comply with federal regulations, the sponsor's terms and conditions, and University policies.
2. As a cost transfer is a form of JV, for the purposes of this policy each submission must also comply with [BPM E-4 Journal Vouchers](#).
3. As examples, a transfer may sometimes be necessary to:
 - a. Correct bookkeeping or clerical errors in original charges;
 - b. Properly allocate costs to the appropriate accounts using a verifiable and reasonable method in accordance with the cost principles; or
 - c. Transfer charges between accounts supporting closely related work for reasons other than covering over expenditures.

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C. Costs benefiting multiple projects

1. For costs benefiting more than one project, it must be determined whether the initial charge could have been appropriately made to the projects. The charge must also be expressed in the approved budget of all projects and meet the cost principles and costing guidelines found in [BPM Appendix 3 - Costing Guidelines for Sponsored Projects](#).
2. Costs benefiting multiple projects can be allocated based on the following two rules:
 - a. *Proportional benefit rule*: A cost should be allocated proportionately if the relative benefit can be determined without undue effort or cost.
 - b. *Interrelatedness rule*: When two or more projects are technically and scientifically related and proportionality cannot be determined, the allocation does not necessarily have to reflect the distribution of the corresponding benefit.

D. Inappropriate cost transfers

1. In accordance with federal regulations, any cost allocable to a sponsored project may not be charged to other sponsored projects to overcome deficiencies in funding, restrictions imposed by the terms and conditions of the award, or for any other reason.
2. The following is a list of transfers that are inappropriate and will not be processed:
 - a. A cost transfer that overspends an account or attempts to move a cost that no longer exists on an account;
 - b. A cost transfer requesting to move expenses onto a closed account;
 - c. A cost transfer for charges that originate in previous fiscal years without an exception, unless the request is moving unallowable expenses off an account;
 - d. A cost transfer requesting to transfer overruns or deficit balances from one sponsored project to another;
 - e. A cost transfer for the sole purpose of utilizing unexpended funds of a sponsored project;
 - f. A cost transfer utilized solely as a part of budget availability/cost management strategy; and
 - g. A cost transfer utilized for any reason of convenience or expediency.

E. Documentation

1. The request for a cost transfer must include the following documentation:
 - a. A completed Journal Voucher Explanation Form or written explanation addressing the following questions:
 - i. What is the reason for this cost transfer?
 - ii. How was the need for this cost transfer identified?
 - iii. If moving an expense onto a WBS element, or partial amount remains, what is the benefit to the project?
 - iv. Describe the corrective action plan put in place to minimize the need for future cost transfers. If no corrective action plan was implemented, an explanation must be provided indicating no deficiencies exist.
 - b. For corrections being made on charges greater than 120 days old, the documentation must include a written explanation of the extenuating

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circumstances which prevented the errors or charges from posting to the correct account within the first 120 days after the original transaction posting. For the exception to be considered, the explanation must emphasize how the extenuating circumstances affected the various levels of internal controls in place and why this is not a result of insufficient support or lack of financial management.

2. The federal government expects the official documentation for a cost transfer to include explanation of the reason for the transfer. The Department of Health and Human Services [HHS Grants Policy Statement](#) states:

“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 project to another or from one competitive segment to the next solely to cover cost overruns are not allowable.”

3. For cost transfers involving cost allocations, documentation must be provided showing the basis of the allocation or methodology utilized (units used, payroll charged, papers presented, square footage, etc.) and the calculations to demonstrate the allocation.
4. For the transfer of payroll charges, please reference [BPM E-8-2 Retroactive Payroll Adjustments](#) to determine whether a cost transfer should be completed via JV.

F. Timing

1. All cost transfer requests should be made timely. This is particularly critical when approaching the end of a budget period to ensure that sponsor reports are not filed including inappropriate charges or to ensure all related charges may be reimbursed by the sponsor. As described, “timely” means that a cost transfer should be made within 90 days of the original transaction and 30 days prior to the date that the final report is due to the sponsor. During this timeframe, the approval of the billing department/unit or college and/or the official for the department/unit or college charged is necessary.
2. If a cost transfer request for a non-NIH, DHHS sponsored project (CFDA 93.XXX excluding NIH program numbers) is not submitted within 90 days following the occurrence of an error, according to the [HHS Grants Policy Statement](#) additional approvals are required. This applies to projects awarded by a flow through entity. The submissions must follow exception processes, which includes an additional approval from the applicable Dean, Vice President of Research, or Provost.
3. Under rare circumstances a cost transfer may be necessary beyond 120 days based upon extenuating circumstances outside the department/unit or college control. Additional approval is required from the applicable Dean, Vice President for Research, or Provost. These exceptions are reviewed for internal control and risk assessments purposes, then require approval by RFS Director.
4. Approval requirements include:
 - a. The department/unit or college level approval is required on all cost transfers and certifies that the financial information is accurate, compliant with cost

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accounting principles, and a legitimate reason has been identified for the cost transfer request.

- b. For cost transfers submitted that are no longer considered timely:
 - 1. The Principal Investigator approval certifies the expenditure(s) is appropriate for the sponsored project account and that the expenditure(s) complies with the terms and restrictions governing that sponsored project account.
 - 2. The Department Chair or Director approval certifies the expenditure and documentation have been reviewed to ensure compliance with both internal policies and the sponsored project terms and conditions.
 - c. The Dean, Vice President of Research, or Provost approval concurs with the previous certifications and acknowledges that if the cost transfer is subsequently disallowed by an auditor or sponsor, the college or department/unit is responsible for the disallowed cost.
5. Requests to transfer costs greater than 120 days without an approved explanation of extenuating circumstances will be denied and all charges will be moved to the indirect overrun account.

G. Expected award costs

Under certain circumstances, it may be necessary for costs to be incurred before an award document has been received for a sponsored project. However, expenditures made pending the receipt of an award or contract may not be charged to another sponsored account in the interim. When necessary for research to begin prior to receipt of award, an expected award account should be requested and established through the Office of Sponsored Projects Administration (OSPA).

H. Sponsor requirements

A sponsor may have guidelines on cost transfers that are more restrictive than those set forth by the University and federal government. For further clarification regarding sponsor requirements, please refer to your award documentation and PADR. The Office of Sponsored Projects Administration and Research Financial Services may be contacted for additional clarification.

I. Denial and disallowances

The department/unit with which the sponsored project is affiliated is responsible for appropriately funding any denied or disallowed charges associated with a cost transfer.

Research Financial Services may disallow any or all charges associated with a cost transfer based upon the determined risk or failure to adhere to the established cost accounting principles. Charges may also be denied due to the failure to meet the timing or documentation requirements previously stated in this procedure. Any disallowed charges will subsequently be moved to the indirect overrun account of the responsible department/unit.