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RAF Policies and Guidelines

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Cost Transfer Policy

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COST TRANSFER POLICY AND PROCEDURES
June, 2009

Scope and Purpose

The University has a stewardship responsibility for all sponsored funds. Proper management of sponsored project expenditures is essential to meet this obligation. Therefore, the following policy and procedures will be consistently applied to all sponsored agreements.

The University recognizes that cost transfers are sometimes necessary to correct bookkeeping or clerical errors in the original charges and to allocate closely related work that may support more than one project.

However, frequent, late, and inadequately explained transfers – especially those involving projects with cost overruns or unexpended balances – raise serious questions about the propriety of the transfers and call internal fiduciary controls into question. This may result in audit disallowances and monetary paybacks including penalties and fines.

Auditors and sponsors will flag as suspicious cost transfers with the following characteristics:

- Costs transferred long after the original charges were recorded.
- Transfers supported by inadequate documentation or justification.
- Transfers made at the end of a project that relieve cost overruns or spend out a project.

Definitions

A. Original Charge - the first posting of a cost to the general ledger, initiated by payroll charges, purchase orders or check requests (and the purchasing card).

B. Cost Transfer - any subsequent transfer of the original charge to another cost center.

Policy

Original charges should be directed to the appropriate benefiting sponsored project. If it is necessary to request a cost transfer that involves a sponsored project, requests should be made promptly and contain sufficient documentation and justification to support the cost transfer that would stand the test of a formal audit.

Under no circumstances may costs that benefit one sponsored project be charged temporarily to another sponsored project. Sponsored project costs that may not be charged to the appropriate project for any reason may be charged to a non-sponsored cost center and transferred to the appropriate sponsored project at the earliest

opportunity. Failure to adhere to this policy will result in improper financial reporting and inappropriate reimbursement from the sponsor.

Procedure

The Principal Investigator (PI) should review expenditure activity regularly for allowability under the terms of a sponsored agreement. Allowable costs are defined in OMB Circular A-21, in the sponsor's published guidelines and in the sponsored agreement itself.

If it is determined that a transaction has been charged to a sponsored project in error, the PI should prepare and sign a Journal Voucher and submit it to the Office of Research Administration and Finance (ORAF) for review. All transfer requests must contain sufficient documentation and explain why the error was made and why this expenditure is appropriate for the project. **It is unacceptable to transfer expenses solely based on budget availability.**

The allowability of cost transfers is dependent upon the following factors:

Timeliness

Non-labor cost transfers must be processed within 120 days of the date of the original transaction. Requests to transfer expenditures to a sponsored project after this time will be subject to additional verification and documentation.

Salary cost transfers must also be timely. Principal Investigators must monitor salaries to be sure the effort is allowable and reasonable and falls within the sponsored project period. The PI should establish salary charges proactively and not rely on retroactive adjustments.

Retroactive salary transfer requests must be thoroughly documented. Salary charges will be removed from a sponsored project as soon as the error is discovered. However, a salary charge that is older than 90 days will not be moved to a sponsored project without sufficient explanation and documentation to address the late change and the reason for the change. Proposed salary changes that are older than 90 days are reviewed and approved by the Director, Research Accounting. The Salary Distribution Change Forms may be found at:
http://www.northeastern.edu/hrm/resourcesforms/hrpay.html

A compliant federal time certification process (also known as effort reporting) is dependent upon timely salary distributions. Northeastern's effort reporting policies may be found at:
http://www.research.neu.edu/policies/documents/effort_reporting_5_27_09.pdf.

Appropriate Circumstances

OMB Circular A-21, Section D.1, and the University's Costing Policy specify that "direct costs are those costs that can be identified specifically with a particular sponsored project…or that can be directly assigned to such (a project) with a high degree of accuracy." Typically, cost transfers are appropriate when the purpose is to correct posting or bookkeeping errors in the original charges, or to reallocate shared costs among cost centers.

Explanation/Justification and Documentation Requirements

All cost transfer requests, including salary transfers, must be supported by a written justification and signed by the PI. The reason for each cost transfer must be clearly explained with supporting documentation when appropriate. ORAF has primary responsibility for approving cost transfers and maintaining the related records. ORAF may request copies of additional supporting documentation if questions arise during review.

Cost Transfer Request Documentation Requirements and Examples

All non-salary cost transfers involving a sponsored project are subject to the following documentation requirements.

- E-PRINT/SSB PRINT screen documentation that shows the original charge.
- Copies of documentation related to the charge; purchase orders, procard receipts, or other documentation that establishes the validity of the charge.
- An explanation of the reason the original charge was not made to the appropriate cost center.
- A justification for why this charge is appropriate for the project.
- An explanation for the lateness of the request if the request is made more than 120 days after the original charge posted.
- The signature of the PI or his/her designee authorizing the transfer.

One form may be used to document several transfers if they are part of one journal and if the circumstances surrounding them are identical.

All salary transfer requests will use the appropriate form (Payroll Distribution Change Regular or Payroll Distribution Change Other) and contain all of the above documentation. Labor related cost transfers are completed through the Payroll Distribution Change Regular (PDCR) and Payroll Distribution Change Other (PDCO) forms.

If a cost benefits two or more projects or activities in proportions that cannot be easily determined because of the interrelationship of the work involved, the cost may be

allocated to projects on any reasonable basis, provided that the allocation procedure (1) meets the standards of the sponsor and OMB Circular A-21, Section C.4.d.3.; (2) is fully and clearly documented; and (3) is auditable by means of supporting documentation substantiating the allocation (e.g. usage log for an equipment maintenance contract).

Expenses must be reallocated for reasons other than covering an over-expenditure or under-expenditure and must fall within the 120-day rule. The costs must be allowable and should be allocated to the projects based on the proportional benefit of the cost to the project (See Costing Policy).

Examples of Acceptable and Unacceptable Cost Transfers:

Usually acceptable transfers requiring little justification include:

- Transfers with written approval from the sponsor
- Transfers between linked funds
- Typing error in entering the fund number

Unacceptable stand-alone explanations include:

- To correct coding
- To transfer expense
- Should be charged to grant
- To correct an error
- To correct charge to wrong fund
- To correct salary distribution
- Administrative error or oversight
- Change made on operating budget
- Charged to another fund to expedite order
- Late because principal investigator was out of town

Questionable transfers that will raise an audit flag:

- Transferring expenses from an overspent sponsored project (except for final, closing entries)
- Transfers to spend out a project
- Transfer of an expense that was previously transferred

Unallowable transfers:

- Moving money from one project to another
- Transfer to a project of expenses incurred after the project end date
- Transfers which do not explain why the error occurred and how the expense is appropriate to the project to which it is being moved

Units that consistently submit cost transfers that are late, incomplete, or inadequately documented may, **at the discretion of ORAF,** be required to submit a corrective action plan outlining steps to be taken to ensure compliance with this policy.

Examples of transfers that do not need detailed explanations:

- Transfers to correct a data entry or transposition error. The explanation should identify the transposition error and the correcting entry.
- Transfers of expenditures from a prior year cost center to the continuation center. (Continuation is defined as the same project that has the same agency award number.)
- Transfers from a departmental core cost center used as a “master” account for certain purchases. (i.e. a single cost center set up with an outside vendor to allow for direct billing through Accounts Payable or a University-approved recharge center). A log that fully substantiates the transfer must accompany the journal.

Transfers not meeting the above criteria will be rejected and returned to the department with the reason for the rejection.