Cost Transfer Principles

Policy, Procedure, and Process

Presented by:
Office of Sponsored Projects
Topics Covered

- Definitions
- Federal Regulations
- Sponsor and University Policy
- The Cost Transfer Process
- Course Take-Aways
- Contacts and Resources
- Questions and Answers
Definitions

▪ What is a cost transfer?
  – The reassignment of an expense to or from a sponsored project after the expense was initially charged to another sponsored or non-sponsored project.

▪ What is not a cost transfer?
  – A reclassification of a cost from one spend category to another within the same grant number or award number.

▪ What is an extenuating circumstance?
  – An unusual condition preventing the timely execution or transfer of a transaction, for example, a system failure over which the individual has little or no control.
2 CFR Part 200 (OMB Circular A-81):

- Any costs allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted:
  - To other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations
  - To avoid restrictions imposed by law or by terms of the sponsored agreement, or
  - For other reasons of convenience.
Sponsor and University Policy

- **National Institutes of Health’s (NIH) Grants Policy Statement (GPS):**
  - Transfers must be supported by documentation fully explaining how the error occurred and a certification of the correctness of the new charge by a responsible organizational official of the grantee, consortium participant, or contractor.
  - 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.
  - Grantees should have a system in place to detect errors within a reasonable time frame.
  - Frequent errors in recording costs may indicate the need for accounting system improvements and/or enhanced internal controls.
  - Grantees are encouraged to evaluate the need for improvements and to make whatever improvements are deemed necessary to prevent reoccurrence of errors.
Sponsor and University Policy

- **Health and Human Services (HHS) Grants Policy Statement (GPS):**
  - Conditions on previous slides also apply
  - Permissible cost transfers should be made promptly after the error occurs but no later than 90 days following occurrence unless a longer period is approved in advance by the GMO.
    - Applicable to agencies that fall under HHS [i.e., Agency for Healthcare Research and Quality (AHRQ), Centers for Disease Control and Prevention (CDC), Food and Drug Administration (FDA), Health Resources and Services Administration (HRSA), Substance Abuse and Mental Health Services Administration (SAMHSA), Administration on Aging (AoA) as well as other HHS agencies excluding National Institutes of Health]
Policy 1305: Cost Transfers Involving Sponsored Projects

- The University expects that all costs charged to a sponsored project are correctly charged initially, and meet the principles of allowability...
## Allowability of Costs

### Principles to Test the Allowability of Costs

<table>
<thead>
<tr>
<th>Principle</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Necessary, reasonable and allocable</td>
<td>Goods or services acquired and amount involved reflect an action that a prudent person would have taken (prudent person rule).</td>
</tr>
<tr>
<td>Conform</td>
<td>Items not restricted by federal regulations (2 CFR Part 200) or the specific award terms and conditions and agency requirements.</td>
</tr>
<tr>
<td>Consistent with policies/procedures of the University and Treated Consistently</td>
<td>Consistent with policies and procedures that apply uniformly to both federally financed and other activities of the University. “Like” costs in similar circumstances treated consistently throughout the University.</td>
</tr>
<tr>
<td>Be determined to be in accordance with GAAP</td>
<td>Financial information should be useful to individuals when making financial decisions, assessing resources, and maintaining records. (GAAP: Generally Accepted Accounting Principles)</td>
</tr>
<tr>
<td>Not be included as a cost or used to meet cost sharing on any other federal award</td>
<td>A cost cannot be used to satisfy cost sharing requirements and also charged to the award.</td>
</tr>
<tr>
<td>Be adequately documented</td>
<td>Departments should keep complete records of all costs, including justifications of charges and any prior approvals.</td>
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</tbody>
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Costs that do not meet these principles should not be charged to the sponsored award.
Policy 1305: Cost Transfers Involving Sponsored Projects (continued)

- Goods and services should be charged or, if applicable, allocated among awards at the time of the original purchase whenever possible and practical, to avoid unnecessary cost transfers.

- The PI and the business office are expected to make personnel and corresponding payroll distribution determinations before any individual devotes effort to the project.

- When appropriate, At-Risk Accounts should be utilized (e.g., pre-award costs).
Policy 1305: Cost Transfers Involving Sponsored Projects (continued)

- Principal Investigators (PIs) and their Business Offices are responsible for ensuring that transfers of costs to sponsored projects which represent corrections of errors are made promptly.
  - Within 90 days from the end of the calendar month in which the transaction appears on the award except in cases where the sponsor’s (federal or non-federal) terms and conditions are stricter than Yale’s policy.

- Transfers of costs to any sponsored project account are allowable only where there is direct benefit to the project account being charged.

- An overdraft or any direct cost item incurred in the conduct of one sponsored project may not be transferred to another sponsored project account merely for the sake of resolving a deficit or an allowability issue.

- Cost transfers should not be used as a means of managing awards.

- Cost transfers to correct an error must be completed regardless of timeframe if the correction benefits the sponsor.
Test Your Knowledge
Test Your Knowledge

Sponsor and University Policy

▪ When would a cost transfer be permitted on a sponsored award?

▪ When are cost transfers *NOT* allowed to a sponsored award?
The Cost Transfer Process
Roles and Responsibilities

- **Requestor:** The individual who has first-hand knowledge of the benefit to the sponsored project and has determined that:
  - funds are available
  - the cost is allowable according to the sponsor's terms & conditions of award
  - the cost is consistent with University policy, and
  - the cost is reasonable and appropriate

- **Initiator:** The individual whose role is to support the proper execution of a cost transfer by
  - gathering complete supporting documentation
  - providing the appropriate and complete transaction description addressing the Who, What, When, Where and Why, and
  - entering a valid and appropriate COA, and iv.) entering the cost transfer information into the Workday

- **Approver:** The individual whose role is to support the proper execution of a cost transfer by
  - confirming compliance with University policy and with sponsor terms and conditions
  - reviewing the transaction’s information and supporting documentation entered by the preparer to ensure it is reasonable, appropriate, and complete
  - reviewing accounting information and source of funds, and
  - approving the cost transfer in Workday
Cost Transfer Process

- **Cost transfers may be prevented by:**
  - Pre-reviewing salary information, for example, running monthly and weekly Payroll Costing Allocation Preview – Yale.
  - Performing monthly monitoring such as updating labor schedules, authorizing pending PAA and JE transactions, reviewing unprocessed and unapproved expense transactions.

- **Identifying expense(s) requiring transfer may be effected by:**
  - Reviewing the Suspense Program (PG99999) and Temporary Charging Project (PJ028458).
  - Reviewing transactions including but not limited to expense reports, invoices, shipping transactions, subaward payments, and unallowable spend categories.
  - Reviewing the Portfolio Reports and completing the Controller’s Office monthly Financial Review Checklist.
  - These reviews typically identify charges that may post an expense in error due to keying or sponsored award budget-end date expiration.
Cost Transfer Process

How are cost transfers processed at Yale?

- Within Workday, as Payroll Accounting Adjustments (PAAs) or non-salary Journal Entries (JEs), as appropriate.
- However, there are a number of cost transfers executed through other systems, such as the Graduate Student Payment System (GSPS).
Completing the Workday Justification Form

Form 1305 FR.15 Manual Journal Cost Transfer Justification Form
Cost Transfer Process: Justifications (continued)

Completing the Workday Justification Form – Examples of Justifications:

1. What is the primary reason for the cost transfer?
   A. Charged to incorrect account (including Transposition error)

2. Is any line of the transfer greater than 90 days? ○ Yes or □ No

3. Explanation: Provide an explanation for the error and how it occurred (e.g., transposition error). If any of the charges being transferred are over 90 days; explain the unusual circumstance that prevented the timely review and submission of the error.
   – Explain how the error occurred.
     Example: The expense was inappropriately charged to AWDA12354 due to a transposition error keyed by the preparer when submitting an iExpense. The correct award is AWDA12345.

4. Benefit: What is the benefit to the receiving award?
   – Justify why the charge should be transferred to the proposed receiving award and the benefit.
     Example: The error was discovered by the receiving department during their monthly financial review. The department contacted the preparer in our department in order to make the correction. The order placed to Invitrogen for Elisa Mouse Test Kits was for account AWDA12345. These test kits allow for the measurement of analytes as described in the specific aims of the awarded proposal.
Completing the Workday Justification Form – Examples of Justifications:

1. What is the primary reason for the cost transfer?
   C. Allocation of costs that benefit more than one project.

2. Is any line of the transfer greater than 90 days? ○ Yes or ● No

3. Explanation: Provide an explanation for the error and how it occurred (e.g., transposition error). If any of the charges being transferred are over 90 days; explain the unusual circumstance that prevented the timely review and submission of the error.
   – Explain how the error occurred.
     Example: Original allocation did not include AWDA12000 because the PI did not notify the DBO to include this award at the time of purchase. It was not until the PI reviewed her monthly Account Holder Report and immediately notified the business office of the allocation change that staff was made aware that award AWDA12000 was using this service.

4. Benefit: What is the benefit to the receiving award?
   – Justify why the charge should be transferred to the proposed receiving award and the benefit.
     Example: The answering service is needed during off hours to answer calls from study subjects. This service helps to ensure the collection of accurate subject information and assists in the number of calls made to subjects. Allocation is based on estimated number of study subjects per award as a percentage of total subjects.
Examples of *unacceptable* justifications:

- “Per PI.”
- “Effort for November was charged to suspense program PG99999 because award AWDR12345 was set up late.”
- “Copy charges benefit various awards and projects.”
Completing the Workday Justification Form When an Extenuating Circumstance is Required:

2. **Is any line of the transfer greater than 90 days?**
   - If yes, there must be an extenuating circumstance.
     Use the space provided for an “Explanation” to:
     - Identify the reason as to why the cost transfer was not performed within 90 days of occurrence.
     - Explain what internal process and controls have been put into place to prevent and alleviate further occurrence.
Completing the Workday Justification Form – Examples of Justifications:

1. What is the primary reason for the cost transfer?
   F. Late award (received NoA late from awarding agency)

2. Is any line of the transfer greater than 90 days?  ○ Yes  or  ● No

3. Explanation: Provide an explanation for the error and how it occurred (e.g., transposition error). If any of the charges being transferred are over 90 days; explain the unusual circumstance that prevented the timely review and submission of the error.

   – Example: The award notice was received by Yale on May 14 with a start date of April 1. The business office received the COA on June 10 but did not schedule personnel until mid-August as the PI was not available until after August 1st. An at-risk account was requested, but due to an email glitch the request was never received or processed as the business office was not notified by the PI of the anticipated award, or that work was being performed.

   The business office has since started to: 1) communicate regularly with all PIs regarding anticipated awards; 2) meet with the PI regularly to ensure the allocation of personnel salaries are correct; and 3) discuss any planned upcoming changes to ensure proper charging instructions are in place.

4. Please justify why the charge should be transferred to the proposed receiving award and explain the benefit to the receiving award.

   – Example: According to the PI (email attached), she reviewed her Portfolio Reports in late July and realized 20% of her effort spent on award AWDR00001 for April, May, and June was not charged. During this period, she designed experiments to dissect the function of seahorse in cilia assembly and cyst formation, monitored the progress of the experiments, and evaluated the data collected.
Test Your Knowledge

- So what’s the big hurry?! As a general rule, don’t we have a 90-day grace period to prepare and submit cost transfers?

True or False?
Example of Unacceptable Extenuating Circumstances:

- A COA was not received until September 10th, due to compliance requirement issues.
- Due to staffing problems, the correction was not made in time for the September month-end close.

Why is this example unacceptable?
Test Your Knowledge: Cost Transfer Process

- **Examples of Unacceptable Extenuating Circumstances (continued):**
  - “This error was discovered when I met with Dr. XYZ on January 14th.”

- **Why is this example unacceptable?**
Documentation Requirements for Preparing a Cost Transfer

1. Documentation must be attached to the cost transfer batch that supports the existence of the charge on the award from which the cost is being removed and date of the original charge.
   
   – The system will not allow the Approver to approve nor make the batch ready for OSP review if documentation is not attached to the cost transfer.

   – Examples of documentation include:
     
     • Portfolio Reports
     • Financial Transactions – Yale (To review Payroll charges and determine if changes are needed)
     • Detail Transactions - Yale
2. Written, signed, and dated authorization from the PI or assigned initiator (an e-mail from an authorized individual justifying the cost transfer is generally acceptable).

- For Journal Entries (JE): Attached authorization should include the approved cost allocation methodology when allocating charges based on interrelationship.

- A Payroll Accounting Adjustment (PAA) involving a previously certified effort report: The PI/faculty member must provide a detailed explanation as to why the effort certification statement was certified without reallocating the Actual Effort % to an appropriate account. A copy of the effort certification statement form(s) is required as an attachment to the cost transfer as part of the supporting documentation. PAAs for a previously certified effort certification statement puts into question the veracity of the certification.

- For PAAs involving Suspense Program (PG99999) or Temporary Charging Project (PJ028458): The documentation should include evidence that the issue was resolved (for example, if an award received a certification, a screenshot showing that the labor was updated, and a setup report, and/or the reason why an At-Risk Account was not requested.)
3. A detailed statement explaining the reason for the cost transfer, which should also include an explanation as to how the error occurred (completed as part of the Workday Justification Form).

4. A description of how the cost applies to or benefits the award to which the cost is being transferred (completed as part of the Workday Justification Form).
   - For payroll cost transfers, the award benefit statement should include information regarding the percent effort devoted to the project(s).

5. Additional supporting documentation must be provided by the Preparer should the following conditions exist.
   - A cost transfer to an HHS (excluding NIH) award over 90 days following occurrence – requires sponsoring agency prior approval.
6. Costs are being transferred to a new sponsored award that was set up after the award start date as a result of a COI hold.

   – Typically, work on a new sponsored award is not to begin unless all compliance requirements are met and the award is set-up. If work has begun and the award was on hold but not due to a conflict of interest hold, charges may be transferred to the award with a clarifying statement in the justification.

7. Cost transfers to an award occurring during the final months of an award or after the expiration of the award.

   – The action of transferring expenses at project end is typically a red flag as it appears remaining funds are being "spent down". The explanation must also include why costs are being transferred at the conclusion of the project and not charged appropriately at the time of purchase.
8. For any animal related charges:
   – The transfer of all animal related charges to a sponsored award requires that the award to be linked to an appropriate IACUC protocol (aka "congruency").

9. Summer salary (Central Campus):
   – A copy of the Faculty Summer Compensation Request form and associated documentation that authorized the original payment must be attached to the PPA as supporting documentation.
Cost Transfer Process: Approvals

Approving the Cost Transfer

- The Approver reviews the Initiator’s submitted cost transfer and...
  - Confirms all supporting documentation is attached and accurately and completely satisfies the requirements of University Procedure 1305 PR.02; and
  - Confirms that the charges being transferred satisfy the terms and conditions of the award and University policy.
    - The expense must benefit the award being charged.
    - For PAA’s related to HHS awards:
      - Does the salary exceed the cap? The over-the-cap portion must be charged to a linked project.
Cost Transfer Process: Approvals (continued)

**Approving the Cost Transfer (continued)**

- **Allocable to the award that will be charged**
  - Consult with PI: Was there an allocation method on file for the PI/Award?
    - If no, does there need to be one for future charges?
    - If yes, why was it not followed?

- **Reasonable and necessary**
  - Is it reasonable/necessary for example, to purchase a piece of equipment during the month before the award expires? Why would it be reasonable?

- **Within the award period or pre-award period, if applicable**
  - Charges made after the expiration date of the award cannot be charged to an award.

- **Consistently treated**
  - Is the charge a typical F&A type expense?
  - Has the charge been properly justified as not being a typical F&A expense?
Posting a Cost Transfer Batch in Workday

– The Approver may Approve or Send Back (to the Preparer) the batch.
– The Approver will receive an immediate notification of “Successfully Completed” or “Up Next Central Grant Cost Transfer Approval”
Test Your Knowledge
Test Your Knowledge

For cost transfers submitted and departmentally approved in less than 90 days, isn’t it true they do not get reviewed by OSP and therefore do not require full explanations and supporting documentation to be electronically attached?

True or False?
Cost Transfer Process

OSP Review and Approval

- Once the batch is approved (by the Approver), OSP's initial review is typically performed within 5 business days.
  - During OSP's review process, the cost transfer is either approved or denied.
  - If for any reason a cost transfer does not meet any one of the policy and procedure requirements, the batch will be denied and the department will be notified of the reason for the rejection and that a full review of the transfer may not have been completed.

**NOTE:** PAAs that involve a previously certified effort certification statement are reviewed by the Director of Financial Management for approval.

If the removal of charges result in a change to a previously certified effort certification statement, the certifier must recertify the affected effort report **(unless corrected at the time of certification)**.
Denying Cost Transfers

- OSP sends an email notification to both the Preparer and Approver providing the reason for the denial.
  - For cost transfers resulting in a credit to a sponsored award, the credit side of the entry will be processed.
  - The debit side of the cost transfer will post to the department’s Sponsored Project Transfer Account (aka suspense account).
  - OSP will notify both the Initiator and the Approver by email that the charges contained within the batch were posted to the department.
Course Take-Aways:

✓ Cost transfers should not be used as a means of managing awards.

✓ Cost transfers must be done within 90 days from the end of the calendar month in which transaction appears on the award or earlier in cases where the sponsor’s (federal or non-federal) terms and conditions are stricter than Yale’s policy.

✓ Documentation must be attached to the cost transfer batch, must be complete, and must thoroughly and accurately describe the circumstances surrounding the cost transfer.

✓ Explanations and documentation must be concise. Cost transfers should typically range from 2 to 5 pages, including supporting documentation.

✓ Cost transfer batches should not be approved when the supporting documentation is excessive, repetitive, and attempts to overwhelm the reader.

✓ Avoid Cost Transfers!
Contact Information

Cost Transfers
Journal Entries
Payroll Accounting Adjustments
PCEs

OSP Accountant
203-785-3630

Fax: 203-737-5837

Identify your department’s OSP Accountant

Appeal of an OSP Cost Transfer Decision

Expenditure Review Panel
ExpenditureReviewPanel@yale.edu
To successfully complete this course you will need to take the class (online or instructor-led) and pass the quiz.

Take the online course and quiz.

Go directly to the quiz.

Register to attend an instructor-led class.

If you are taking the class as a refresher and passed the quiz in the past, you can, but do not need to retake the quiz.

Continue to the next slide to see additional resources
Resources

Update after revisions are made

- Policy 1305: Cost Transfers Involving Sponsored Projects
  [http://your.yale.edu/policies-procedures/policies/1305-cost-transfers-involving-sponsored-projects](http://your.yale.edu/policies-procedures/policies/1305-cost-transfers-involving-sponsored-projects)

- Procedure 1305 PR.04: Unallowable Costs
  [http://your.yale.edu/policies-procedures/procedures/1305-pr04-unallowable-costs](http://your.yale.edu/policies-procedures/procedures/1305-pr04-unallowable-costs)

- Procedure 1305 GD.07: Determining Allowability, Reasonableness, and Allocation of Costs for Sponsored Projects

- Procedure 1305 PR.01: Journal Entries
  [http://your.yale.edu/policies-procedures/procedures/1305-pr01-journal-entries](http://your.yale.edu/policies-procedures/procedures/1305-pr01-journal-entries)

- Form 1305 FR.15: Journal Staging Area—Cost Transfer Justification

- Procedure 1315 PR.01: Labor Distribution
  [http://your.yale.edu/policies-procedures/procedures/1315-pr01-lab-procedures](http://your.yale.edu/policies-procedures/procedures/1315-pr01-lab-procedures)

- Form 1305 FR.16: Labor Distribution—Cost Transfer Justification
  [http://your.yale.edu/policies-procedures/forms/1305-fr16-labor-distribution-cost-transfer-justification](http://your.yale.edu/policies-procedures/forms/1305-fr16-labor-distribution-cost-transfer-justification)

- Guide 1304 GD.01: At Risk Accounts
  [http://your.yale.edu/policies-procedures/guides/1304-gd01-risk-accounts](http://your.yale.edu/policies-procedures/guides/1304-gd01-risk-accounts)
Resources

- Policy 1105: Retention of University Financial Records (Policy Statement and Section 1105.7: Records Related to Grants and Contracts)
  http://your.yale.edu/policies-procedures/policies/1105-retention-university-financial-records
- Policy 1315: Effort Reporting: Certifying Effort on Sponsored Projects
  http://your.yale.edu/policies-procedures/policies/1315-effort-reporting-certifying-effort-sponsored-projects
- Policy 1316: Effort Commitment: Managing Effort Associated with Sponsored Projects
  http://your.yale.edu/policies-procedures/policies/1316-effort-commitment-managing-effort-associated-sponsored-projects
- 2 CFR Part 200 (OMB Circular A-81)
  http://www.ecfr.gov/cgi-bin/text-idx?SID=15d5184c2810c3eef54cd7109663b443&node=pt2.1.200&rgn=div5
- 2 CFR Part 200.405 Allocable Costs
  https://www.ecfr.gov/cgi-bin/text-idx?SID=15d5184c2810c3eef54cd7109663b443&node=pt2.1.200&rgn=div5#se2.1.200_1405
- Cost Transfers Involving Sponsored Projects, GCAAlert, Volume 1, Issue 2 Week of February 18-22, 2013
  https://your.yale.edu/sites/default/files/gcalert_vol_1_issue_2_2013.pdf
- 1101 Fr.01 Financial Review Checklist
  https://your.yale.edu/sites/default/files/1101fr01_financial_review_checklist.xlsx
Email questions to: osp.trainings@yale.edu

You will receive a response within 2 business days.
Review Questions and Answers
Test Your Knowledge

Sponsor and University Policy

- **When would a cost transfer be permitted on a sponsored award?**
  - When there is a direct benefit to the award being charged;
  - Performed timely; and
  - Appropriate justification and supporting documentation are provided.

- **When are cost transfers NOT allowed to a sponsored award?**
  - To **solely** clear an overdraft or deficit to a sponsored award.
  - When used as a means to manage the award.
  - When there is not a direct benefit to the receiving award.
Test Your Knowledge

- So what’s the big hurry?! As a general rule, don’t we have a 90-day grace period to prepare and submit cost transfers?

True or False?

- False. Why?
  - The 90 days is not an implied grace period. Transactions charged in error and identified within the month, or at month-end during financial statement review, require prompt removal.
  - Prompt removal is important as the sponsor may have already reimbursed Yale for that expense.
Examples of Unacceptable Extenuating Circumstances:

- A COA was not received until September 10th, due to compliance requirement issues.
- Due to staffing problems, the correction was not made in time for the September month-end close.

Why is this example unacceptable?

- This example does not explain why the cost transfer took longer than 90 days. Assuming that ‘compliance requirement issues’ may have accounted for a majority of the 90 days, it does not explain the nature of the compliance problem.
- In some cases, it may be inappropriate to transfer charges resulting from a delayed compliance requirement review or hold, such as IACUC approval.
- Staffing problems are not a sufficient explanation.
- The statement does not provide a corrective action.
Examples of Unacceptable Extenuating Circumstances (continued):

- “This error was discovered when I met with Dr. XYZ on January 14th.”

Why is this example unacceptable?

- This example does not explain why the cost transfer took greater than 90 days.
- Assuming January 14 was after 90 days, the explanation should indicate why the PI meeting was not scheduled earlier.
- Corrective action should be identified and described as part of the cost transfer justification.
Test Your Knowledge

For cost transfers submitted and departmentally approved in less than 90 days, isn’t it true they do not get reviewed by OSP and therefore do not require full explanations and supporting documentation to be electronically attached?

True or False?

– False. Why?

– All cost transfers must include supporting documentation that contains a full explanation of how the error occurred and a correlation of the charge to the project to which the transfer is being made.
  • Explanations such as “to correct an error” or “to transfer to correct project” are unacceptable.

– Policy applies to all sponsored award cost transfers

Policy 1305: Cost Transfers Involving Sponsored Projects