531-008-A: COST TRANSFER POLICY

I. Introduction

Proper management of funds is essential to uphold the fiduciary responsibilities of the Corporation. To comply with the cost allowability and allocability requirements of Office of Management & Budget ("OMB") Title 2 Code of Federal Regulations ("CFR") Parts 215 and 220 (Circulars A-110 and A-21, respectively) and the NIH Grants Policy Statement, it is necessary to explain and justify transfers of charges into federal awards from other federal or non-federal accounts. Frequent, late, and inadequately documented or explained transfers, especially those which involve sponsored projects with overruns or unexpended balances, raise serious questions about the appropriateness of the transfers. This may result in expenditure disallowances and/or subsequent reduction in funding. Accurate internal transactions will improve the quality of financial reporting, improve compliance with regulatory requirements, and minimize inefficiencies in document correction.

II. Policy

It is the policy of the University Corporation at Monterey Bay (the “Corporation”) that costs will be charged to the appropriate sponsored project when first incurred. There are circumstances in which it may be necessary to transfer expenditures to a sponsored project subsequent to the initial recording of the charge. Those transactions require monitoring for compliance with the Corporation’s policy, Federal regulations, and the cost principles that underlie fiscal activities on sponsored projects.

All cost transfer requirements necessitate an explanation and justification for the transfer of charges onto sponsored projects from other sponsored or non-sponsored projects. Timeliness and completeness of transfer explanations are important factors to comply with allowability and allocability requirements.

III. Terms and Definitions

A. Account: A place to record financial activity in the general ledger. Each account has specific characteristics that govern its use and presentation in financial reports.

B. Allowable Costs: Costs that are (a) reasonable; (b) allocable to sponsored projects under the principles and methods outlined in OMB Circular A-21;
(c) give consistent treatment though application of those generally accepted accounting principles appropriate to the circumstances; and (d) conform to any limitations or exclusions set forth in OMB Circular A-21 or in the sponsored agreement as to types or amounts of cost items. (OMB Circular A-21, Section C2)

C. Cost Transfer: An after-the-fact reallocation of the cost associated with a transaction from one account to another account(s).

D. Direct Costs: Costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. (OMB Circular A-21, Section D1)

E. Facilities and Administrative (“F&A”) Costs: Costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity (OMB Circular A-21, Section E1). Also known as Indirect Costs.

F. Federal Unallowable Costs: Costs identified as unreimbursable by the federal government in OMB Circular A-21, Section J or by the specific sponsored project terms and conditions.

G. Fiduciary Responsibility: Responsibility to manage funds in a manner consistent with the furtherance of the Corporation’s mission and the conditions specified by external sponsors, when applicable.

H. Indirect Costs: See Facilities and Administrative (“F&A”) Costs.

I. Sponsored Project: An externally funded activity (public or private) that is separately budgeted, accounted for, and governed by specific terms and conditions. Sponsored projects may be in the forms of grants, contracts, or cooperative agreements for research, instruction, and public service activities.

IV. Policy Guidelines

A. Applicable Federal Regulations and Criteria: Funding from the Federal government comes with specified terms and conditions, including a requirement that the Corporation comply with applicable principles on charging costs to Federal projects. The primary sources of these cost principles are OMB Circulars A-110 and A-21 and the NIH Grants Policy Statement.

The NIH Grants Policy Statement requires that the Corporation maintain documentation of cost transfers, pursuant to 45 CFR 74.53 or 92.42, and
must make it available for audit or other review. The Corporation must have systems in place to detect such errors within a reasonable timeframe; untimely discovery of errors could be an indication of poor internal controls. Frequent errors in recording costs may indicate the need for accounting system improvements, enhanced internal controls, or both to prevent recurrence. A Sponsor may require a grantee to take corrective action by imposing additional terms and conditions on an award(s).

The Corporation applies the same criteria to all sponsored projects, regardless of funding.

B. Overview of Cost Transfers: A cost transfer is an after-the-fact reallocation of the cost associated with a transaction from one account to another account(s). All Principal Investigators (PIs) and their supporting administrative staff are expected to understand the importance of reviewing their sponsored project accounts on a regular basis to ensure that costs are being initially allocated to the correct funding source and that all costs charged to a funding source are appropriate and correct. When good faith attempts are made to allocate costs to their appropriate funding source initially, the need for cost transfers should be minimal. Transferring costs between funding sources will only be allowed if the transfer is in accordance with institutional policies and fully compliant with all contractual terms and conditions, agreements, and external regulations and guidelines.

C. Permissibility of Cost Transfers

1. Timeliness: Cost transfers should be processed as soon as possible after the original transaction. For open grants, a cost transfer must be made no later than 90 days after the date of the original transaction. For grants that have passed their end date, the 90-day rule may be negated if the final invoice has already been submitted or the final drawdown has already been made. Transfers made after this 90-day period of time raise questions concerning the appropriateness of the transfer and could potentially heighten the level of scrutiny applied to all cost transfers campus-wide. Requests for transfers made after 90 days will be considered only under extenuating circumstances.

2. Appropriateness: Cost transfers are appropriate when they are reasonable, allocable, allowable, and consistently applied direct costs of the sponsored project. Typically the purpose of cost transfers is to correct errors in processing the original charges, move costs between accounts for closely related work that is supported by more than one funding source, or to transfer pre-award costs from non-grant accounts in accordance with the provisions of OMB Circular A-110.
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Costs transfers may be appropriate in the following circumstances:

- To correct clerical errors
- To reallocate effort to reflect actual charges
- For the removal of unallowable expenses, including out-of-period charges
- For the allocation of costs benefiting more than one project that should not be charged on only one sponsored activity
- To move costs from a non-grant account such as an incentive or donation account if grant expenses were temporarily charged there while waiting for the grant account creation

Inappropriate uses of cost transfers include, but are not limited to, the following:

- As a cost management strategy
- To move funds between sponsored projects to avoid or eliminate cost overruns
- For any other reasons of convenience
- Solely for the purpose of utilizing unexpended funds of a sponsored award
- To circumvent pre- and/or post-awards restrictions/procedures
- As a result of charging expenses to an inappropriate grant temporarily while waiting for another grant account to be set up

3. Explanation and Documentation Requirements: Each cost transfer must be clearly explained with supporting documentation. The PI initiating the transaction has primary responsibility for fulfilling these requirements and maintaining the related records.

The written explanation and supporting documentation must clearly address all of the following:

a. A completed Revenue and Expense Transfer Form
b. A description of the expenses being transferred,
c. Why and when the original charge(s) occurred,
d. Why the receiving account was not originally charged,
e. Why it is appropriate to charge the receiving account,
f. How the expense is allocable to the receiving account, and
g. Steps implemented to prevent future need for correction.

An explanation merely stating that the transfer was made “to correct an error” or “to transfer to the correct project” is not sufficient.
V. Adoption and Review

A. The Corporation’s Board of Directors has adopted this Cost Transfer Policy, dated 30 June 2011.

B. This policy shall be evaluated ten years from its adoption date to determine its effectiveness and appropriateness. The policy may be evaluated before that time as necessary to reflect substantial organizational, financial, or physical change(s) at the University Corporation or any change required by law or by other governing policy.

Any proposed amendments or variations of this policy would require a majority approval by the Corporation Board of Directors.

VI. Related Documents

A. Title 2 Code of Federal Regulations Parts 215 and 220 (OMB Circulars A-110 and A-21, respectively)

B. NIH Grants Policy Statement

C. 561-001 Cost Share Policy

D. 561-002 Effort Reporting and Certification Policy

E. Revenue and Expense Transfer Form

F. 533-008 Cost Transfer Procedures

G. 535-008 Cost Transfer FAQ