University of Pittsburgh

FINANCIAL GUIDELINE Subject: Cost Transfers

I. Guideline Background

A **cost transfer** is an accounting entry that moves costs between accounts to correct an accounting or clerical error in the original entry. A proper system of internal financial accounting control with respect to cost transfers dictates that such accounting entries be *timely*, *properly documented*, *explained*, and *appropriate under the circumstances*. Federal regulations and Cost Accounting Standards require that such transfers be treated consistently across all University funding sources.

II. Scope

This guideline outlines the requirements for recording cost transfers on the financial accounting records of the University in accordance with a proper system of internal financial accounting control and Federal regulations. The guideline also establishes the responsibility of the Principal Investigator (PI) to ensure the accuracy and integrity of the cost transfers made to or from their sponsored project accounts. In addition, the Departmental Administrator is responsible for ensuring the timeliness, accuracy, and integrity of cost transfers made to or from departmental accounts.

The University's cost transfer guideline applies to all faculty and staff who record cost transfers on the accounting records of the University, and to all sources of University funding, including unrestricted, restricted, endowment, and plant funds.

III. Definitions

Cost transfer - an accounting entry that transfers costs between or to/from University sponsored project(s) and/or departmental account(s)

Departmental/Research Administrator (DA) – individual who is responsible for the original financial accounting, budgeting, and administration of the sponsored projects of a department or Principal Investigator

Direct cost – a cost that can be identified specifically with a particular sponsored project, instructional activity, or other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy

Directly associated cost – a cost that is generated solely due of the incurrence of another cost, and which would not have been incurred had the other cost not been incurred; for example, the fringe benefit costs that are generated proportionately as salary costs hit a University account are considered to be *directly associated* with the salary costs

Effort Certification Period – University Principal Investigators are required to certify effort for themselves and for all employees working on their sponsored projects three times a year; the forty-five (45) days following each reporting period (Jan 1 – Apr 30, May 1 – Aug 31, and Sept 1 – Dec 31) is called the *effort certification period*

Indirect or Facilities and Administrative (F&A) costs – those costs that are incurred for common or joint purpose and benefitting more than one cost objective, and therefore cannot be identified readily and specifically with a particular sponsored project, instructional activity, or other institutional activity

Level reports - on-line reports that provide monthly summary and accounting transaction detail of financial activity within a University account

Period of Performance – the time frame between the start and end dates of a sponsored activity, during which a recipient of funding is expected to complete a project, spend approved funds, and incur new obligations in accordance with award terms and conditions

Principal Investigator (PI) – individual designated by the sponsoring agency who is responsible and accountable for the proper conduct and direction of the project or activity. At the discretion of the Dean, a Principal Investigator for sponsored projects is typically a tenured or tenure stream faculty member, but can also be another member of the academic community such as research associate or non-tenure stream research/clinical faculty. More information about the rights and responsibilities of PIs can be found in University policy RI 08 "Responsibilities of Sponsored Research Investigators" (formerly policy 11-01-02).

IV. Guideline

Level reports for University sponsored project accounts must be reviewed on a routine basis in accordance with University policy FN 13 "Level Report Review and Reconciliation" (formerly policy 05-06-07). Correction of errors or omissions identified on the level reports via non-salary cost transfers must be completed monthly, but no later than 90 days after the end of the

month in which the error or omission occurred. Erroneous charges to sponsored projects that are found to be unallowable must be transferred to a non-sponsored University account (hard funds).

An **appropriate cost transfer** is made when a charge qualifies as a bona fide cost of the sponsored project or indirect activity to which the cost is being moved. Typically, cost transfers are appropriate when their purpose is to:

- correct an accounting or clerical error in the original charge
- transfer pre-award costs in the limited circumstances under which some sponsors will accept such costs according to the provisions of OMB Uniform Guidance Sections 200.209, .308, and .458.
- transfer expenditures held in a departmental expense account until the final accounting is determined or a contract is executed
- retroactively adjust salary costs on sponsored projects to reflect an individual's actual effort on the projects in a timely manner

Any transfer that deviates from this guideline is noncompliant with federal regulations and is strongly discouraged. Frequent errors in the recording of costs and a lack of timeliness in review of sponsored accounts is indicative of the need for improvements in the department's financial accounting systems and internal control procedures. Accordingly, where such a history of errors is identified, an evaluation of the adequacy of such systems and controls will be performed. In addition, the Office of the Controller will perform periodic reviews of transactions to ensure compliance with this guideline.

All individuals who record cost transfers on the accounting records of the University **must ensure that such entries**:

- are approved by someone other than the preparer with financial or administrative responsibility and having direct knowledge of the transfer being made
- are fully documented and explained, with documentation maintained and available for audit
- represent costs that are identifiable, chargeable, or assignable to the sponsored project, department, or other institutional activity

represent costs resulting from obligations incurred during the award period of performance,

- do not represent costs transferred from overrun sponsored projects to other sponsored projects having unexpended funds solely for the purpose of spending out those unexpended funds

- do not represent costs transferred to Federally sponsored projects that are identifiable, chargeable, or assignable to non-Federally sponsored projects or department or other institutional activity

- are recorded in a timely manner to facilitate proper financial reporting and submission of financial, performance, and other reports required by the sponsor

- are completed within ninety (90) days of the end of the month in which the error or omission occurred or, in the case of salary cost transfers, within ninety (90) days of the end of the effort reporting certification period

- include a thorough explanation and justification.

Transfers made after ninety (90) days raise serious questions as to the validity of the transfer. A request for a cost transfer **beyond ninety (90) days** will be denied, unless it meets the criteria for one of the following six (6) exceptions:

1. Removal from a sponsored project of an inappropriate or expressly unallowable charge, regardless of lapsed time.
2. Removal of detected charges disallowed by audit or sponsor (*Note: disallowed charges must be transferred to University hard funds; see also* Allowability of Costs *and* Direct Charging Practices *guidelines*.
3. Reallocation that affects only some combination of master and sub-accounts within the same award, while all accounts involved are open and active.
4. Removal of charges from an account that was set up under an advance account request for which the award was not subsequently received or an account expecting an extension that is not awarded.
5. To make necessary adjustments on training awards to align payments to trainees with federally mandated stipend rates.
6. Reallocation that affects only some combination of non-research accounts and does not cross University fiscal years if involving

entity 02 (operating) unless an exception is approved by the Controller's Office.

A Special Note about Salary Cost Transfers

The review and certification of effort on sponsored projects is governed by University policy RI 09 "Sponsored Projects – Effort Reporting / Certification" (formerly policy 11-01-07). In accordance with this policy, each PI must review and certify their own effort and the effort of all employees working on the PI's sponsored projects three times a year. The periods for effort reporting, which follow the University's academic periods are:

September 1 – December 31
January 1 – April 30
May 1 – August 31

PI certification of effort reported for these periods must be completed within a 45-day certification window beginning approximately four (4) weeks after the financial close of the effort reporting period. Any effort-related errors or omissions identified during the review of the level reports and/or during the effort certification period must be corrected within ninety (90) days of the end of the effort reporting period.

OMB Uniform Guidance 200.430 provides that, "Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term." Based on this federal guidance, corrections to effort distributions may be performed within ninety (90) days from the end of the effort reporting period (academic period). Care should be taken to delay PI certification of any effort statement for which a salary reallocation is pending, however, salary reallocations should be made prior to the end of the 45-day PI certification window to allow for timely certification of effort. However, if a sponsored project ends within an effort certification period, any salary reallocations should be made within ninety (90) days of the project period of performance end date to facilitate submission of financial, performance, and other final reporting as required by the sponsor.

Exceptions for salary reallocation beyond 90 days after the end of the effort reporting period must be requested in writing and include a complete explanation, with supporting documentation, of how the error occurred, the reason the transfer is late, a certification of the propriety of the charge to the sponsored project, and a plan to prevent similar issues in the future. A

request for reallocation beyond ninety (90) days will be denied unless it also meets all six (6) of the criteria listed above in this guideline.

Notes Applicable to <u>All Transfers</u>
Allowable costs identified as distributed incorrectly to a particular cost objective must be identified and transferred to other soft funding (sponsored) as appropriate and must be completed within 90 days of the original incurred date.

Expressly and or mutually agreed unallowable costs of federal awards need to be transferred in a timely manner to University hard funds available to the initiating department. Unallowable costs cannot be charged either directly or indirectly to sponsored awards.

See also *Allowability of Costs* and *Direct Charging Practices* guidelines.

V. References

OMB Uniform Guidance Sections 200.402 to .405
OMB Uniform Guidance Sections 200.209, .308, and .458
OMB Uniform Guidance Section 200.430
NIH Grants Policy Statement Part II, Section 7.5
NIH Grants Policy Statement Part II, Sections 7.9.1 and 11.2.9.1
NSF PAPPG Chapter 5 Section A. 2. b.
University of Pittsburgh, RI 08 “Responsibilities of Sponsored Research Investigators” (formerly policy 11-01-02)
University of Pittsburgh, RI 09 “Sponsored Projects – Effort Reporting / Certification” (formerly policy 11-01-07)
University of Pittsburgh, FN 13 “Level Report Review and Reconciliation” (formerly policy 05-06-07)