

UMCES Administrative Guidance: Cost Transfers

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Definition

A cost transfer is a correcting journal entry (accounting adjustment) that transfers a cost originally charged to one account/object code to a different account/object code.

Not a Form of Budget Management

Costs are to be charged to the appropriate sponsored award when first incurred. There are, of course, circumstances where it may be necessary to transfer expenditures to a sponsored award subsequent to the initial recording of the charge. Cost transfers are sometimes necessary to ensure those original charges and/or credits are recorded in the proper account but may not be a standard method of reallocation of funds between accounts.

Regulatory Requirements

To comply with allowability and allocability requirements, it is necessary to explain and justify the transfer of charges to federal awards from other federal or non-federal accounts. Timeliness and completeness of transfer explanations are important factors in supporting allowability and allocability in accordance with the principles set forth in the guidance.

The transfer of charges from other projects or programs to sponsored research awards is closely examined by auditors. Frequent, tardy, or inadequately explained transfers can raise serious questions about the propriety of the transfers and the accounting system and internal controls.

The following items reflect general federal regulations, federal sponsor guidelines, and audit guidance:

- Cost Transfers by grantees should be accomplished within 90 days.
- The transfers must be supported by documentation that fully explains how the error occurred and a certification of the correctness of the new charge by a responsible organizational official of the grantee.
- An explanation merely stating that the transfer was made “to correct error” to “transfer to correct project” is not sufficient.
- Transfers solely to cover cost overruns, whether from one project to another or from one competitive segment to the next, are not allowable.
- Cost transfers may not be done for reasons of convenience.

- Grantees must maintain documentation of cost transfers and must make it available for audit or other review.
- Frequent errors in recording costs may indicate the need for accounting system improvements and/or enhanced internal controls.

Initiating a Cost Transfer:

The PI/Lab Business Office must initiate the cost transfer as soon as possible after the original charge was made. Transfers more than 90 days after the original charge require additional explanation and justification and specific approval from the UMCES Comptroller.

The relevant questions to be adequately answered in the justification are:

- 1) Why was the transaction(s) originally posted to the account from which it is now being transferred?
- 2) Why should the transaction(s) be transferred to the proposed account to be charged? How is it allocable? How does this transaction benefit the project?

If transfer request is over 90 days from the date of the original transaction we must have the answers to these questions documented as well:

- 3) Why is the transaction(s) being transferred more than 90 days after the original date the transaction was recorded?
- 4) What corrective action has been taken to eliminate future need for cost transfers of this type?

Important Notes:

- Explanations such as "to correct a clerical error" or "to transfer to correct project" are not adequate and not accepted by auditors.
- Transfers of costs from one project to another solely to cover cost overruns are not acceptable.
- Transfers of costs from one project to another just to spend out an account are not acceptable.
- Generally, the older the charge the more involved the explanation of the transfer should be.

Questions concerning this guidance should be referred to Beth Pinder, UMCES Comptroller, at bpinder@umces.edu or Angela Richmond, ORAA Director, at arichmond@umces.edu