Loyola University of Chicago
Cost Transfers Policy

Introduction
Cost transfers by their very nature are highly subject to scrutiny under audit. This is because a cost transfer is being done under one of two scenarios:
1. Correction of an error
2. A reversal of a prior decision regarding where the expense should be charged.
Auditors will shift the burden of proof of allowability to the institution for accounting units that receive a charge as a result of a cost transfer.

Correction of Errors
The transfer of expenditures from one sponsored agreement to another sponsored agreement that represents correction of clerical or bookkeeping errors must be made promptly after the error is discovered. The transfers must be supported by documentation that contains a FULL EXPLANATION of how the error occurred. It should be noted that frequent errors in the recording of costs may indicate the need for improvements in the grantee’s accounting system and/or internal controls.

Closely Related Work
When salaries and/or other activities are being supported by two or more sources, issues arise as to how these costs should be allocated among the sources of support. If a cost benefits two or more projects in proportions that can be determined, the cost should be allocated to the projects based on the proportional benefits. If the proportions cannot be determined, the cost should be allocated to the projects based on a reasonable basis.

Cost Transfer Policy
University and federal policies require prompt transfers to grants and contracts. All retroactive transfers must be made within 90 days of the posting and must be reasonable, allocable and allowable. Costs transfers over 90 days are prohibited. Exceptions to this policy will be granted if extenuating circumstances warrant the transfer and must be approved by the Assistant Controller of Sponsored Program Accounting. Note, however, that once a final Financial Status Report or Report of Expenditures has been issued or the accounting unit has been closed, retroactive cost transfers are not permitted.

Federal cost principles do not allow transfers of cost from one budget period to the next, solely to cover cost overruns.

Costs charged near the end of the project, with the sole intent to spend the remaining balance, will be determined as unreasonable and, therefore, unallowable on the sponsored agreement.
Salary Transfers: Transfers of salary expenses are subject to additional scrutiny and must be well justified. Circumstances requiring transfers of salary expenses are:

1. Retroactive salary adjustments
2. Transfers from operating budgets or other accounting units to a newly established grant and contract accounting unit.
3. Corrections to a new hire information form in the payroll system

Non-Salary Transfers: Non-Salary costs transfers must be made within 90 days, must meet the tests of reasonableness, allocability and allowability under the government requirements, and must have adequate justification.

Cost Transfer Procedures
Salary Transfers: The department administrator or principal investigator must submit a valid justification for each retroactive salary cost transfer. Sponsored Program Accounting will no longer accept retroactive salary cost transfers based solely on faculty authorization or employee information forms. A valid justification must be written in the remarks section of the faculty authorization or employee information forms, which require salary transfers for prior periods.

Requests for exceptions to the 90 day policy should be made in writing to the Assistant Controller of Sponsored Program Accounting, and should contain justification for the cost transfer and a reason for the delay in processing the salary form. If approved and applicable, a revised Effort Certification Report will be prepared by Sponsored Program Accounting that must be signed by the Principal Investigator.

Non-Salary Transfers: The department administrator or principal investigator must submit valid justification for each transfer. The department administrator or principal investigator can use one of two options in submitting a Non-Salary transfer: Electronic General Journal Entry or an email/memo to Sponsored Program Accounting. The Electronic Journal Entry and instructions are located at the following internet address: http://www.luc.edu/finance/forms.shtml

The Electronic General Journal Entry must contain a valid justification in the Explanation area and any supporting documentation. Sponsored Program Accounting will return any journal entry with a vague or incomplete justification. The email/memo must contain the accounting units to debit and credit, a valid justification and any supporting documentation. Sponsored Program Accounting will no longer accept emails with vague justification for the transfer.

Requests for exceptions to the 90 day policy should be made in writing to the Assistant Controller of Sponsored Program Accounting, and should contain
justification for the cost transfer and a reason for the delay in processing the cost transfer.

Cost Transfer Policy Guidelines
The University’s cost transfer policy is applicable to all grants and contracts regardless of the source of funding. A key element of the policy is the stipulation that all transfers must be made within 90 days of the end of the month in which they were posted.

As always, cost transfers must stand the test of being allowable, applicable and reasonable, in order to be deemed as an allowable charge to a sponsored project. Cost transfers are almost always reviewed when an accounting unit, department or university is audited. When reviewing cost transfers the burden of proof regarding allowability is on the department.

The auditor will consider the rationale, nature and timing of a cost transfer in determining whether the transfer passes the tests of reasonableness and allowability. The entire set of circumstances will be examined during an audit to determine allowability. Factors such as how long after the charge firsts appeared on the accounting unit and the impact the transfer will have on the accounting units being charged will weigh heavily in the auditor’s determination. Cost transfers processed after the end date are suspicious by nature and must be particularly well justified, especially with respect to timing. Partial amounts must be well justified and should be avoided when possible. Transfer of effort percentages must be reasonable and reflect actual effort expended.

A key factor related to the timely processing of cost transfers is a monthly review of a department’s sponsored program accounting units. It is critical that the sponsored program accounting units be reviewed on a monthly basis in order to facilitate the timely submission of cost transfers.

Below are sample justifications from cost transfers submitted for processing by various departments, along with the reasons why they may not be deemed allowable under audit. Also shown are the potential remedies and re-written, acceptable justifications:

1. **Questionable Justification – “To transfer overage to related project”**

   **Reason** – Transfer of overages form one project to another is not permitted

   **Remedy** – If projects are related, identify which costs are to be shared and clearly indicate how the amount to be shared was determined
Acceptable Justification – To transfer supplies used on related projects. Supplies should be shared equally on both projects; thus 50% of the cost of the items are being transferred.

2. Questionable Justification – “To correct expenditures charged incorrectly due to clerical error”

Reason – There is insufficient explanation of why and how the clerical error occurred. In general, this explanation is only adequate if a transposition error occurred, if this is the cause, it should be stated.

Remedy – Explain the nature of the clerical error

Acceptable Justification – The technician who ordered supplies used the accounting unit number of a project, which was closed. She has been instructed to use the new number. I’ve also asked that all supply orders be reviewed and approved by the department administrator to prevent this from occurring again.

3. Questionable Justification – “To transfer unallowable maintenance costs from Dr. Smith’s American Heart Association project to his related NIH project”

Reason – The fact that a charge is unallowable on one project is an insufficient reason for charging another project. The expense must have been incurred to benefit the project being charged.

Remedy – The maintenance cost can only be charged to a sponsored program accounting unit that benefited from the expense. If none are available, the cost must be transferred to an operating, gift, research stimulation or closed clinical trial accounting unit. This cost transfer will be identified as a voluntary cost sharing expenditure.

Acceptable Justification – To transfer ½ of the maintenance charges to Dr. Smith’s NIH project on which the related equipment was used. The other ½ is being transferred to the cost share accounting unit.

4. Questionable Justification – “To charge appropriate accounting unit”

Reason – This does not adequately explain why the wrong accounting unit was charged. Why is the accounting unit now selected more appropriate? How was the amount to be transferred determined?

Remedy – Explain why the accounting unit being charged is appropriate and how the amount being transferred was determined.
Acceptable Justification – To transfer 100% of technician’s salary for the indicated months to the project where his effort was spent. The administrator was not informed that the technician changed projects.

5. Questionable Justification – “To transfer $500 of supply costs to the appropriate accounting unit”

Reason – The amount transferred and the reason for the transfer are not adequately justified. Are the projects related? Why, other than clerical error, wasn’t the order charged to the proper accounting unit?

Remedy – Explain how the amount was determined and why the accounting unit being debited should be charged.

Acceptable Justification – To transfer 50% of supplies to Dr. Smith’s NIH accounting unit. Supplies are to be shared equally between the two related projects. The accounting unit being debited was not set up when the supplies were ordered.