Northwestern University Policies

Title: Cost Transfers to Sponsored Accounts

Applicable to: Deans, Directors, Department Heads, Faculty, Finance Personnel, and Sponsored Project Personnel

Effective Date: March 5, 2007

Definition of a Cost Transfer

A cost transfer is the assignment of an expense or expenditure (charge) to a federally or non-federally funded account that was initially recorded in another account.

Requirement for a Cost Transfer Policy

Northwestern University must promulgate standards that are consistent with Office of Management and Budget (OMB) and Agency specific guidance. Thus, it is necessary to explain and justify transfers of charges into federal and non-federal awards from other federal accounts, non-federal accounts, or University accounts. Timeliness and completeness of explanation of transfer are important factors in supporting allowability and allocability in accordance with the principles of OMB Circular A-21.

OMB Circular A-21: "…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."

In addition to complying with OMB Circular A-21, Northwestern University must also comply with the requirements of the National Institutes of Health (NIH), our largest source of federal research funding. Specific language on cost transfer requirements can be found in the NIH Grants Policy Statement. (http://grants.nih.gov/grants/policy/nihgps_2003/)

Direct Charges to Sponsored Projects

As a general practice, direct charges to sponsored research awards must be:

- Specifically identified with a particular project (i.e., charged to where it is used)
- Allocable (i.e., costs must be charged in proportion to their benefit to a particular project)
- Reasonable (i.e., charging costs to a particular project must reflect the actions of a "prudent person")
- Allowable (i.e., certain costs, such as entertainment, may not be charged to a federal grant under any circumstances)
- Timely (cost transfers should occur as soon as the error is discovered but no later than 90 days after the original charge was incurred – the 90-Day Rule will be enforced)
- Conforming to any terms and conditions in the sponsored agreement

Cost Transfer Guiding Principles

- Cost transfers are for correcting errors
- Cost transfers should not be used as a means of managing available cash balances
- Project funds are not interchangeable (the integrity of each grant account must be maintained)
- Fundamental reasonableness, allowability, allocability, and consistency of costs must still be established
- Costs allocable to several projects cannot be charged solely to a single project
- Costs not allocable to a project cannot be charged to that project, even temporarily

Pre-Award

Establishing pre-award accounts, when appropriate, can prevent the necessity of making cost transfers. Pre-award accounts allow the PI to begin work and record charges against the proper account related to a project before the start of the award.

Pre-award accounts are set up through the Office for Sponsored Research.

90-Day Rule

All cost transfers, including salary, should be completed within 90 days of their original transaction date. Expense transfers over the 90-day limit must be accompanied by a letter of explanation (90-Day Letter), signed by the PI, and forwarded to ASRSP for review.

Requests to transfer costs onto sponsored accounts greater than 12 months from the original date of incurrence will generally not be approved.

Steps and Justification

When preparing a cost transfer for non-salary expenses, please submit a Request for Accounting Correction (RAC) form. Supporting documentation (such as transaction numbers, dates, and possibly copies of the budget statements) must accompany each RAC, along with an explanation/justification for every cost transfer request (regardless of dollar amount), which will require that the following questions be answered:

1. Why was this expense originally charged to the account from which it is now being transferred? (Please indicate the transferring account number, the receiving account number, and the amount).
2. Why should this charge be transferred to the proposed receiving account? (A correlation must be drawn between the initial charge and the account to which it is being transferred)
3. (If requested greater than 90 days later) Why is this cost transfer being requested more than 90 calendar days after the 15th of the month following the accounting period of the original transaction? (Include a 90-day Letter)
4. What action is needed to eliminate the future need for cost transfers of this type? Is this action being taken?

The same questions apply when transferring salary expense, in addition to the following:

5. Have you certified effort for the quarter in which the transfer occurs? (Yes, No)

    a. If Yes, the effort certification should already support the percentage of salary that will be charged after the cost transfer is made.
    b. If No, the effort certification cannot be considered delinquent according to the terms of the period's certification deadlines, unless prior notification has been given to the central Effort Coordinator (i.e., the effort certification was not certified only because the cost transfer needed to be processed).

Effort reports certified or revised greater than 6 months after the quarter in which the salary adjustment occurs will generally not be considered allowable documentation in support of the expense.

Signatures Required:

The PI signature is required on cost transfers requested more than 90 calendar days after the 15th of the month following the accounting period of the original transaction. If the request is less than 90 days old, the PI or Business/Department Administrator signature is required.

The individual who prepares the cost transfer request should not be the same individual who approves it. Please have someone else approve the document if you have prepared it.

File Maintenance:

Per 45 CFR 74.53 and 45 CFR 92.42, grantees are required to maintain grant accounting records for 3 years after the end of the project period. If any litigation, claims, negotiation, audit or other action involving the record has been started before the expiration of the 3-year period, the records shall be retained until completion of the action and resolution of all issues which arise from it, or until the end of the regular 3-year period, whichever is later.

Examples of Red Flags

Certain elements associated with cost transfers may result in heightened audit risk to the University. Examples include:

- Transfers to or between sponsored projects
- Transfers older than 90 days after the original transaction
- Transfers in the last month of the award or after the award has expired
- Large numbers of cost transfers (relating to a particular department or grant)
- Grants or contracts with a zero balance at the end of the award
- Round numbers (may be an indicator of a plugged number)
- Paying summer salary late (i.e., in December)
- Labor distribution adjustments to previously certified effort
- Transfers without a full explanation and/or “cookie cutter” explanations
- Transfers among “closely related” projects

Further Information

Questions or concerns regarding cost transfers should be directed to the Office of Accounting Services for Research and Sponsored Programs (ASRSP).

Questions or concerns regarding cost transfer policies should be directed to the Office of Cost Studies.