

Ann & Robert H. Lurie Children’s Hospital of Chicago

Cost Transfer Policy – Federal Awards (effective date: 9/1/17)

Policy Statement

The Ann & Robert H. Lurie Children's Hospital of Chicago (Lurie Children’s) has established the following policy and procedures for the processing of cost transfers to comply with the requirements of the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”) and federal agency policies and procedures. A *cost transfer (CT)* is a journal entry transferring an expense previously recorded in Lurie Children’s general ledger (GL) onto or off of a federally sponsored award AND requires institutional approval before the transfer can be posted to the GL.

Purpose

In order to comply with Uniform Guidance, it is necessary to justify the transfer of an expense onto or off of a federally sponsored award when the original charge was recorded elsewhere in Lurie Children’s GL. The timeliness and completeness of the transfer and justification help in determining the allowability and allocability of the CT; therefore, a CT’s justification must provide a clear audit trail.

Eligibility

This policy applies to all individuals involved with the administration and conduct of federally funded sponsored award activities, including central and departmental sponsored project administrators, principal investigators, and other research personnel.

Roles and Responsibilities

Principal Investigators (PIs)

These individuals take primary responsibility for ensuring the proper allocation of funds, monitoring expenditures, and the timely processing of corrections all while ensuring compliance with federal regulations.

Local Level Unit Managers (LUMs)

These are individuals at the local level who are responsible for managing sponsored funds. They work with RBMs to assist PIs with the timely review and reconciliation of expenditures, prepare cost transfers and maintain adequate documentation of questionable costs, and ensure that all personnel engaged in the financial administration of federally funded sponsored awards are familiar with this policy. LUMs are also responsible for first level approval of all under 90 day cost transfers if granted “authorized approver” designation.

Research Business Managers (RBMs)

These individuals work with LUMs and the OSPA, providing oversight and advice on sponsored project administration including cost transfers and effort reporting. RBMs will address questions and concerns from PIs and LUMs regarding cost transfers. RBMs will review cost transfers, determine if they are allocable, allowable, and reasonable, and submit to OSPA for approval and processing. In the absence of a LUM, they will also prepare cost transfer forms, obtain approvals, and submit the forms to OSPA.

Authorized Approver(s)

These are individuals approved by central finance and can only be assigned in local units with sufficient internal controls in place and no recent history of relevant internal or external audit findings. They have the authority to serve as first level approvers of under 90 day cost transfers. In the absence of a local level authorized approver, the responsibility shifts to the DLO. Authorized Approvers are also responsible for the first level approval of all over 90 day cost transfers before submission to DLOs.

Division Level Officials (DLOs)

These are individuals who provide oversight and are responsible for ensuring that local units abide by this policy and accompanying procedures when processing cost transfers. DLOs are also responsible for second level approval of all over 90 day cost transfers before submission to OSPA. If a local level managing unit does not have an authorized approver to approve under 90 day cost transfers, then the DLO will serve as first level approver for those as well.

Office for Sponsored Programs Accounting (OSPA)

Individuals in this office exercise the financial stewardship of sponsored awards in accordance with specific award terms and conditions. They will also ensure that the cost transfer policy is being followed. OSPA serves as the final approver of cost transfers and retain all the copies of the justifications in accordance with Lurie Children’s policies. OSPA will work closely with RBMs during the cost transfer process and will consult with RBMs if additional information is needed. Furthermore, OSPA will work with RBMs to ensure that the local units receive proper training regarding the cost transfer policy.

Timeliness

90 Day Rule

Once it is determined that an expense needs to be transferred onto or off of a federally sponsored fund, a cost transfer should be processed promptly. Untimely cost transfers may raise serious questions concerning the appropriateness of the cost transfer and may be subject to a cost disallowance. A cost transfer is considered "untimely" when it is not processed within 90 days of the original transaction date. Violations of the deadline do not necessarily mean that the related expenditure is unallowable from a regulatory perspective; rather, it must meet the approval requirements of an over 90 day cost transfer.

The timely processing of expense transfers involving federally sponsored awards are the responsibility of the PIs, LUMs, and RBMs. All should routinely monitor expenditures to evaluate if transfers are needed and then submit corrections in a timely manner. Deadlines associated with the submission of cost transfers are as follows:

Timeframe	Approval
< 90 Days	PI/LUM Authorized Approver and OSPA
> 90 Days	PI/LUM Authorized Approver, DLO, and OSPA
> 90 Days and does not meet extenuating circumstances definition	Unallowable cost on a federally sponsored award - must be charged to non-sponsored funds

Note: If the CT is disallowed, transfer to non-sponsored funds is mandatory.

With respect to a CT, 90 days means 90 calendar days from the 15th of the month following the one in which the charge was originally transacted. For example, if the original charge posted on 1/1/17, 90 calendar days are counted from 2/15/17. In all cases, if an expenditure is deemed unallowable, it must be removed from a federally sponsored project regardless of timeframe.

Closed Fiscal Years

It is Lurie Children's position that a closed fiscal year's general ledger should not be changed unless absolutely necessary. As sponsored funds adhere to specific grant periods defined by sponsors and not Lurie Children's fiscal year, it is sometimes necessary to make adjustments to closed fiscal years. Posting a cost transfer to a closed fiscal year is allowable only under the following circumstances:

- A late award notice was received
- An unallowable expense as defined by Uniform Guidance was identified
- It is determined that the fund was charged in error
- There is a deficit on the fund

Procedures

RBM and/or LUMs must conduct a timely review of grant expenditures. When purchasing an item or transferring a cost, RBMs and LUMs should ensure that the expenditure will directly benefit the project onto which it will be charged. A regular review of post-award expense transactions will reduce the need for cost transfers, and in most cases, submitting a journal adjustment within the same month of the original expense will immediately correct erroneous transactions. Staff should note that items purchased at the end of a project (e.g., within the last 90 days) are subject to even greater scrutiny during an audit. Additionally, any cost transfers that affect a previously submitted final financial report, final invoice, and/or financial report/invoice after the end of the budget reporting period for year logic accounts, regardless of how old the original transaction is, are generally unallowable. Exceptions are rare and require both OSPA and division level approval. Please see **Appendix A** for examples of transactions that are considered cost transfers and transactions that are exceptions to the cost transfer policy.

The following sections address the procedures for journal entries that post charges onto or move charges off of federal awards:

1. Salary and benefits journals exempt from the Cost Transfer Policy
 - a. Journals that never require a cost transfer form
 - b. Journals that do not require a cost transfer form if completed within a specified time period
2. Non-salary journals exempt from the Cost Transfer Policy
 - a. Journals that never require a cost transfer form
 - b. Journals that do not require a cost transfer form if completed within 90 days of the original transaction date
3. Require a cost transfer form and are considered "Cost Transfers" when completed within 90 days of the original transaction date
4. Require a cost transfer form and are considered "Cost Transfers" and are greater than 90 days after the original transaction date

1. Salary and benefits journals exempt from the Cost Transfer Policy

Below are the exceptions that require a Payroll Correction Form or PPR Other Payroll Recovery Form, NOT a Cost Transfer Form

These exemptions **only** relate to salary charges that have not been reported to the sponsor and have not been included in a final financial report, final invoice, or financial report/invoice submitted at the end of a budget reporting period for year logic accounts.

In order to process these journals, submit a completed **Payroll Correction Form** or **PPR Other Payroll Recovery Form** to your RBM for review. Supporting documentation must be retained at the OSPA level but these adjustments do not require approval if they adhere to the Closed Fiscal Years section above and the **Cost Principles for Sponsored Awards**.

Depending on the circumstances, a payroll correction may or may not trigger the reopening of a signed effort certification.

- a. Salary journal adjustments that never require a **Cost Transfer Form**; these adjustments are exempt from the **Cost Transfer Policy**, regardless of over 90 days or under 90 days
 - i. Adjustments made within the same accounting period (before month end close) of the original charges
 - ii. A journal adjustment of a single salary direct cost of less than \$250 (even if the salary has been certified)
 - iii. Adjustments to correct account category only
- b. Salary journal adjustments that do not require a **Cost Transfer Form** if completed within a specified time period regardless of dollar amount; these adjustments are exempt from the **Cost Transfer Policy** if completed within specific timeframe
 - i. Reallocation of salary and benefits to reflect actual effort (see **Effort Reporting Policy**¹ for detailed information)
 1. Before the quarterly effort has been certified **and**
 2. Before the quarterly certification due date
 - a. If the correction is related to PI salary on a cost reimbursable fund, a budget revision would be required
- c. Salary journal adjustments exempt from the **Cost Transfer Policy** if completed within 90 days
 - i. Transfer of pre-award expenses which were charged to a non-sponsored fund

2. Non-salary journals exempt from the Cost Transfer Policy

Below are the exceptions that require a Transaction Correction Form and NOT a Cost Transfer Form

These exemptions **only** relate to expense charges that have not been reported to the sponsor and have not been included in a final financial report, final invoice, or financial report/invoice submitted at the end of the budget reporting period for year logic accounts.

¹ Currently under development

In order to process these journals, submit a completed **Transaction Correction Form** to your RBM for review. Supporting documentation must be retained at the OSPA level but these adjustments do not require approval if they adhere to the Closed Fiscal Years section above and the **Cost Principles for Sponsored Awards**.

- a. Non-salary journal adjustments exempt from the **Cost Transfer Policy**, regardless of over/under 90 days
 - i. Adjustments made within the same accounting period (month) of the original charges
 - ii. A journal adjustment of a single direct cost transaction of less than \$250
 - iii. Adjustments to correct account category only
- b. Non-salary journal adjustments exempt from the **Cost Transfer Policy** if completed within 90 days
 - i. Transfer of pre-award expenses which were charged to a non-sponsored fund

3. Require a Cost Transfer Form and are considered “Cost Transfers” when completed within 90 days of the original transaction date

Below is a list of cost transfers that require approval from the PI/LUM Authorized Approver and OSPA if they are corrected within 90 days of the original transaction date, have not been reported to the sponsoring agency, and have not been included in a final financial report, final invoice, or financial report/invoice submitted at the end of a budget reporting period for year logic accounts.

- a. Reallocation of salary and benefits and does not meet the exceptions noted in Section 1
- b. Non-salary adjustments transferring expenses onto a different fund that do not meet the exceptions noted in Section 2

4. Require a Cost Transfer Form and are considered “Cost Transfers” and are greater than 90 days after the original transaction date

Over 90 day cost transfers must be submitted to the PI/LUM Authorized Approver, Division Level Official, and OSPA for approval. Approval for cost transfers submitted later than 90 days of the original transaction date will only be granted in extenuating circumstances.

Below is a list of cost transfers that require approval if they are corrected 90 days after the original transaction date, have not been reported to the sponsoring agency, and have not been included in a final financial report, final invoice, or financial report/invoice submitted at the end of a budget reporting period for year logic accounts.

- a. Reallocation of salary and benefits and does not meet the exceptions noted in Section 1
- b. Non-salary adjustments transferring expenses onto a different fund that do not meet the exceptions noted in Section 2

Examples of extenuating circumstances include the following:

- Late issuance of an award notice
 - Examples: new award, full execution of a subcontract, extension of time, incremental funding, sponsor-approved budget revision, etc.
 - The deadline for submission of cost transfers is 45 calendar days after OSPA sends the award notification email to the PI, LUM, and RBM. Counting starts on the day after the notification is sent.
- Failure of another department to take action (e.g. on a properly submitted **Payroll Correction Form**)
- Sponsor requirement dictates the need for the cost transfer (e.g. NIH fellowship stipend adjustments to comply with NIH X-train requirements)
- A debit/credit correcting a duplicate transaction or a debit/credit necessary to match a submitted FFR or final invoice
- Journal for faculty salary adjustments between accounts within the same Cayuse project number, if processed:
 - After effort has been certified on the effort reporting form **and**
 - After the certification due date
- Journal for staff salary adjustments between accounts within the same Cayuse project number after 90 days from the original transaction date

Inappropriate circumstances for cost transfers include, but are not limited to, the following:

- When the transfer is largely for the purpose of utilizing unexpended funds on a sponsored award
- When the transfer is for the purpose of avoiding or clearing a cost overrun by charging a different, unrelated sponsored award
- When the transfer circumvents award terms and conditions or the Uniform Guidance cost principles

Frequent, late, and inadequately explained or documented transfers raise serious questions about the appropriateness of the cost transfers and may result in audit findings.

Please also note that at award closeout, Cost Transfer Forms and journal correction forms are due to OSPA no later than 15 days before the reporting deadline of the award being closed. This deadline is necessary in order to ensure proper reporting to the sponsor. See the **Sponsored Financial Reporting and Closeout Guidelines**.

Cost Transfer Request Documentation Requirements and Allocation Methodology

All non-salary cost transfers involving a sponsored award are subject to the following documentation requirements. The cost transfer/journal entry request that is submitted to OSPA must contain:

- An explanation as to why the original charge was not made to the appropriate sponsored account
- A justification for why this charge is appropriate for the account it's being transferred to

- An explanation for the lateness of the request, if the request is made more than 90 days after the original charge posted
- The signature of the PI or the Authorized Approver at the local level
- One journal entry/cost transfer form may be submitted to document several transfers if the circumstances surrounding them are identical

Salary cost transfers should contain an appropriate justification that explains the redistribution. PIs/Authorized Approvers are required to authorize all salary transactions for employees who have effort allocated to their projects. The Labor Templates should be utilized for respective labor changes.

If an expense benefits two or more projects or activities in proportions that cannot be easily determined because of the interrelationship of the work involved, the cost may be allocated to projects on any reasonable basis, provided that the allocation procedure (1) meets the standards of the sponsor and Uniform Guidance, (2) is fully and clearly documented, and (3) is auditable by means of supporting documentation substantiating the allocation (e.g. usage log for shared equipment).

Expenses must be reallocated for reasons other than covering an over-expenditure or under-expenditure and must fall within the 90-day rule. The costs must be allowable and should be allocated to projects based on the proportional benefit of the cost to the project.

For examples, please see **Appendix B**.

Related Forms

Cost Transfer Form

Payroll Correction Form

Transaction Correction Form

PPR Other Payroll Recovery Form

Related Policies

Sponsored Financial Reporting and Closeout Guidelines

Effort Reporting Policy (under development)

Fixed Price Sponsored Award Policy

Indirect Cost Rate Policy (under development)

Cost Principles for Sponsored Awards (under development)

List of Appendices

Appendix A: Cost Transfer Examples

Appendix B: Cost Transfer Sample Justifications

Appendix A - Cost Transfer Examples

Common Cost Transfer Examples:

- Transferring charges BETWEEN federally sponsored projects is considered a cost transfer when the charges do not meet the exceptions noted in the **Cost Transfer Policy**. For example, if a lab supply is incorrectly charged to 90XXXX, is not moved within the month in which it was charged, and is over \$500, then moving the supply to the correct federally sponsored project 90YYYY requires a **Cost Transfer Form**.
- Transferring charges ONTO federally sponsored projects FROM another account (such as a department cost center) is considered a cost transfer when the charges do not meet the exceptions noted in the **Cost Transfer Policy**. For example, if airfare exceeding \$500 is erroneously charged to a department cost center and later moved onto a federally funded award, it would require a **Cost Transfer Form**.
- Personnel expenditures (salaries and fringe benefits) moving ONTO a new federally sponsored award if the award notification from the federal sponsor has been delayed is considered a cost transfer if the expenditures do not meet the exceptions noted in the **Cost Transfer Policy**. For example, if a federal sponsor issues late notice of a continuation that will need to be set up under a different award number, the transfer of expenses onto the new federal fund would require a **Cost Transfer Form**.
- Transferring personnel expenditures ONTO a federal award to align payroll charges with expended effort if the effort certification deadline has passed and the effort has not yet been certified. For example, if a PI has been traveling, missed the quarterly effort certification deadline, and notifies his/her research manager of appropriate effort for the quarter, then transferring the PI's effort onto a federally sponsored award will require a **Cost Transfer Form**.
- An expense posted to a federally sponsored award with an invoice date after the end date of a federally sponsored award. If transferring the expense onto a non-federal fund, only a correction form is needed. If transferring onto a federal fund, a **Cost Transfer Form** would be needed if no exception has been met. For example, a lab supply costing \$500 that can be used for a different federally funded project would require a **Cost Transfer Form**.
- Transferring a charge FROM a federally sponsored award TO a non-sponsored award (such as a department cost center) is considered a cost transfer. For example, if travel expenses are erroneously charged to federal fund 90XXXX and later moved to department cost center 6XXXXX.

Appendix B – Cost Transfer Sample Justifications

Below are several examples of cost transfer documentation which do not meet the requirements described above, a description of the improvements needed in the documentation, and a suggestion as to how the description could be improved to meet the requirements. The following examples depict inadequate cost transfer justifications, provide suggestions for improvement, and identify potential justification for future use. This is not an all-inclusive list and is meant to be a helpful guideline.

Final cost transfer approval always rests with OSPA.

1. Questionable explanation: Transfer of supplies that were charged to the department in error.

- **Issue:** This explanation does not adequately explain why the wrong account was charged and why/how the charge is appropriate to the federal fund being debited, nor does it describe how the error occurred. The explanation should be expanded to better describe the reason why the federal fund being charged is appropriate and how the amount being transferred was determined.
- **Acceptable explanation:** The supplies being transferred were purchased via RQC. The administrative assistant did not review the transactions by month end closing, which caused the transactions to post to the default account, which is our departmental cost center. Going forward, the administrative assistant will review all purchases and assign the correct account number, if applicable, before month end close.

2. Questionable explanation: Transfer overage to related project.

- **Issue:** The transfer of overages from one project to another is not permitted. If expenses are being moved between two interrelated projects, the cost transfer description should clearly identify which costs are to be shared, the proportions in which the projects will share the costs, and a clear indication of how the amount to be shared was determined.
- **Acceptable explanation:** The supplies to be transferred are used on related projects. Supplies should be shared equally on both projects, thus 50% of the cost of the highlighted items is being transferred onto this federally sponsored award.

3. Questionable explanation: To correct fund number incorrectly charged due to clerical error.

- **Issue:** Insufficient explanation of why and how the clerical error occurred, and why the error was not caught earlier. In general, this explanation is only adequate if a transposition error occurred, and such circumstances should be included in the description.
- **Acceptable explanation:** The research assistant in the lab who ordered the supplies used the fund number of a project that was terminated. He has been instructed to use the new fund number. In the future, all supply orders will be reviewed and approved by myself or other administrator prior to submission of the order so that such errors can be prevented.

4. Questionable explanation: To charge a portion of a lab technician's salary to the project.

- **Issue:** The reason for the transfer is missing, and there is no indication of why the labor template was set up incorrectly at the time the charge was generated. The description should be expanded to include a description of the individual's role on the project, the portion of his/her

salary being moved, and how the portion of salary being moved was determined. It should also state that the labor template has been updated to prevent future errors.

- **Acceptable explanation:** Transfer 50% of the lab technician's salary to Dr. Smith's project. This individual performed experiments with mice and split his time equally between Dr. Smith's NIH project and AHA project. When the timesheet was completed, neither the lab technician nor the approver of the timesheet was aware that the experiments being conducted related to the additional project. We have talked with the lab technician and Dr. Smith to ensure that more information about the experiments is shared in the future which will better ensure that such errors do not occur in the future. We have also adjusted the labor template accordingly.

5. Questionable explanation: Labor template update was not processed in time.

- **Issue:** The explanation does not adequately address why the labor template was not updated in time. The description should be expanded to better explain the circumstances of the delay in processing the update to the labor template and the specific plan to avoid such occurrences in the future.
- **Acceptable explanation:** The administrator was informed of a staff member's effort distribution change after HR deadline for January 15th payroll. The staff member has been asked to communicate changes in effort in a timely manner in the future in order to avoid such circumstances.

6. Questionable explanation: Move charge from department.

- **Issue:** The reason for the transfer is not stated. The description should be expanded to explain how the charge benefits the grant being charged and why the charge was not originally posted to the grant.
- **Acceptable explanation:** The start date of the grant is December 1. However, the account number was not established in the accounting system until January 15. The PI needed to purchase some materials to begin work on the project in December, thus they were charged to the department until the federal fund number was established.

7. Questionable explanation: To charge 14.58% of Dr. Smith's salary to the research grant and close grant account.

- **Issue:** Actual effort is to be estimated as closely as is reasonably possible. The use of very precise estimations is only allowable to the extent that the individual's effort can be confirmed with such precision. The effort distribution should reflect the actual amount of effort spent on the grant, even if it causes the grant to be overspent (for which the overspent amount would then be transferred onto a discretionary account) or causes the grant to be under spent (in which case the unspent funds would be handled as required by the award).
- **Acceptable explanation:** Dr. Smith worked 15% of his time in January on this grant project, which ended January 31. There are only enough remaining funds to cover 7.5% of January's effort. As such, 7.5% of January's salary and fringe benefits should be charged to the federally sponsored award and 7.5% should be charged to the department's cost center.