

## Cost Transfer Policy

### I. Purpose

It is the policy of Lurie Children's that costs should be charged to the appropriate grant and contract award when first incurred. Regular review of financial records and timely communication between principal investigators and departmental administrators should prevent the necessity for cost transfers; however, there are circumstances where it may be necessary to transfer expenditures to a grant and contract award subsequent to the initial recording of the charge.

A cost transfer is an after-the-fact reallocation of costs, either payroll or non-payroll, to a grant and contract award. Federal requirements concerning the management of awards made to institutions such as Lurie Children's limit the circumstances under which cost transfers are allowed.

### II. Eligibility

This policy applies to all grants and contracts, federal, state and private, and all cost categories, including payroll costs. If an individual agreement or sponsor has different requirements than those outlined in this policy, the most restrictive practice will be followed.

### III. Policy

To comply with allowability and allocability requirements of grant and contract awards, it is necessary to explain and justify the transfer of charges to or from grant and contract awards. The federal government has established cost principles governing the administration of grants and contracts at hospitals. Per these cost principles (OASC-3 Cost Principles, Section III (iii)(D)(2)), "Any costs allocable to a particular sponsored agreement 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 research agreement, or for other reasons of convenience."

A. The NIH Grants Policy Statement (Rec. 12/03) states:

“Cost transfers to NIH grants 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. Merely stating that the transfer was made ‘to correct error’ or ‘to transfer to correct project’ is not sufficient. Transfers of costs from one budget period to the next solely to cover cost overruns are not allowable. Grantees must maintain documentation of cost transfers, pursuant to 45 CFS 74.53 or 92.42, 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. If such errors occur, grantees are encouraged to evaluate the need for improvements and to make whatever improvements are deemed necessary to prevent reoccurrence. NIH also may require a grantee to take corrective action by imposing additional terms and conditions on an award(s).”

Cost transfers to NIH grants by grantees, consortium participants, or contractors under grants that represent corrections of clerical or bookkeeping errors should be accomplished within 90 days of when the error was discovered. 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, consortium participant, or contractor. An explanation merely stating that the transfer was made “to correct error” or “to transfer to correct project” is not sufficient. Transfers of costs from one project to another or from one competitive segment to the next solely to cover cost overruns are not allowable.

Grantees must maintain documentation of cost transfers, pursuant to 45 CFR 74.53 or 92.42, and must make it available for audit or other review (see “Administrative Requirements—Monitoring— Record Retention and Access”). The grantee should have systems in place to detect such errors within a reasonable time frame; untimely discovery of errors could be an indication of poor internal controls. Frequent errors in recording costs may indicate the need for accounting system improvements, enhanced internal controls, or both. If such errors occur, grantees are encouraged to evaluate the need for improvements and to make whatever improvements are deemed necessary to prevent reoccurrence. NIH also may require a grantee to take corrective action by imposing additional terms and conditions on an award(s).

B. Cost transfers may only be allowed under the following circumstances:

- To correct bookkeeping or clerical errors in original charges within 90 days of the error and providing an appropriate explanation of the error.
- To properly allocate costs to the appropriate project using a verifiable and reasonable method in accordance with cost accounting principles.
- To transfer charges between projects supporting closely related work for reasons other than covering over expenditures. (Please refer to section “H. Closely Related Work” in this policy).

C. In addition, the U.S. Department of Health and Human Services Grants Policy Statement (Rec. 1/07) states:

Cost transfers by recipients between grants, whether as a means to compensate for cost overruns or for other reasons, generally are unallowable; however, cost transfers by recipients (or sub-recipients or cost-type contractors) may sometimes be necessary to correct bookkeeping or clerical errors.

Recipients (and sub-recipients and contractors) should have systems in place to detect such errors within a reasonable time frame. Untimely discovery of errors could be an indication of poor internal controls.

Permissible cost transfers should be made promptly after the error occurs but no later than 90 days following occurrence unless a longer period is approved in advance by the Grants Management Officer (GMO). The transfer must be supported by documentation, pursuant to 45 CFR 74.53 or 92.42 that fully explains how the error occurred and a certification of the correctness of the new charge by a responsible official of the recipient, sub-recipient, or contractor. An explanation merely stating that the transfer was made “to correct error” or “to transfer to correct project” is not sufficient. This information need not be submitted to the GMO but is subject to audit. If the transfer affects a previously submitted FSR, a revised FSR must be submitted.

Frequent errors in recording costs may indicate the need for accounting system improvements, enhanced internal controls, or both. If such errors occur, organizations are encouraged to evaluate the need for improvements and to make whatever improvements are deemed necessary to prevent reoccurrence. An awarding office also may require a recipient to take corrective action by imposing additional terms and conditions on an award.

#### IV. Procedure

A. Cost transfers within 90 days

Cost transfers involving grants and contracts processed within 90 days of the original transaction require approval signatures from the principal investigator (PI) and/or their designee and the Lurie Children's Office of Sponsored Programs Accounting. Approval via email is considered sufficient.

The 90 days are measured from the 15th working day of the month following that in which the original charge was recorded (examples: charge posted 9/15/07, 90 days counted from 10/15/07).

B. Cost transfers over 90 days

Only in exceptional circumstances will cost transfers (including payroll re-allocations) be permitted more than 90 days (as measured above) after the original charge or effort certification. The reasons why the cost transfer was over 90 days after the original charge must be documented in detail, and the transfer will require the approvals of the Principal Investigator (PI), the appropriate fund accountant, and the Director of Office of Sponsored Programs Accounting.

C. Transfer policy

Exceptional circumstances for cost transfers over 90 days that may be considered include;

- Late issuance of a Notice of Grant Award (NOGA), full execution of a subcontracts/contract subsequent to the start of the budget period or other period of performance; supporting documentation required.

#### D. Cost transfers at end of fiscal year

Cost transfers involving grants and contracts processed for August must be completed within 90 days from receiving the Lawson financial reports from Office of Sponsored Programs Accounting.

Please note: The Office of Sponsored Programs (OSP) recommends the use of the Preaward Spending Account Request to establish a pre-award fund number, which is done at the request of the Principal Investigator. The requirements are: documentation that an award will be forthcoming, identification of an unrestricted “backup” account that can be used to cover costs in the event that the anticipated award does not materialize, and the submission of a budget/pre-award requested amount. This pre-award fund becomes the “active” fund upon receipt of the award documentation and funding and no cost transfers are subsequently required. Note that in order for a Pre-award Account to be set up, a fully completed routing form must be done, detailed budget must be submitted and all compliance committee approvals must be in place. Please see [policy on Preaward spending account](#).

- Failure of another department to take action, e.g. on a properly submitted payroll or nonpayroll re-allocation change request; supporting documentation is required.
- Examples of circumstances justifying a cost transfer over 90 days that are **not** adequate include; Absences of principal investigator or cognizant research administrator, shortage of human resources, or lack of experienced staff.

**Please note:** It is recognized that stewardship over grants and contracts in accordance with sponsor policies and procedures is a hospital commitment that must be met by the cooperation of a team of departmental and central administrators, as well as the principal investigator. It is the responsibility of this team to ensure the availability of qualified staff to administer and exercise stewardship over grant and contracts in accordance with sponsor policies and procedures. This includes monthly monitoring of grant expenditures such as identification of potential cost overruns, timely correction of errors, and reallocation of expenses as appropriate.

- The use of grant and contract fund numbers and other hospital funds as “holding” accounts for grant and contract expenditures that will subsequently be transferred elsewhere. At no time should expenditures be placed on a grant and contract fund number for reasons of convenience or funding availability with the intention that they will be removed to the proper fund number

at a later date. Such “parking” of costs violates sponsor agency guidelines and is strictly forbidden.

- Invalid or incomplete explanations or justification for cost transfers including, but not limited to the following; due to administrative oversight, to correct salary distribution, due to time constraints, or a redistribution of general department effort.

Requestors are advised to submit explanations for lateness (i.e. over 90 days) in advance to the Director, Office of Sponsored Programs and Director, Office of Sponsored Programs Accounting before completing the required Lurie Children’s Cost Transfer Request and assembling backup documentation.

If frequent errors in recording costs to grants and contracts persist, a formal corrective action plan must be developed by the Principal Investigator, Director, Office of Sponsored Programs and Director, Office of Sponsored Programs Accounting to ensure conditions will improve.

V. Other issues related to cost transfers

A. Pre-award costs

For effective and economical conduct of grant and contracts it is sometimes necessary for costs to be incurred prior to the receipt of the award document and actual funding.

OMB Circular A-110 generally allows these costs up to 90 days before the award. In such cases, departments must request that the Office of Sponsored Programs approve the establishment of a new grant and contract fund number via the Pre-award Spending Account Request. The early fund number will become the permanent fund number when the award is effective and no cost transfers will be required.

## B. Continuation costs

If a continuation award is anticipated after the end date of the current award, costs may continue to be charged to the active fund number only if approved by the Office of Sponsored Programs. For continuation awards requiring assignment of a new fund number, costs must be allocated upon start date of award.

## C. Grant and contract closeout

Cost transfers processed towards the end of a grant and contract budget period and/or which result in the clearing of an overrun raise serious questions concerning the benefit of the cost being reallocated to the specific sponsored project. In order to allow for adequate preparation of a final invoice due 90 days after the final end date all cost transfers related to the project being closed must be submitted 60 days after the final end date. If the final invoice is due prior to 90 days the transfers must be received at least two weeks prior to the final invoice due date.

## D. Unexpended balances

In most instances unexpended grant and contract funding at the close of a project period must be returned to the sponsor. Exceptions are fixed price contracts or agreements allowing carry-forward of funds, and awards under Expanded Authorities that allow institutions to internally approve no-cost extensions. For clarification of the terms of a specific agreement, contact the Office of Sponsored Programs.

## E. Payroll cost transfers (Lurie Children's Employees)

Payroll Cost Transfers of an individual's salary and associated fringe benefits are initiated via a properly completed payroll correction form for that individual. Payroll allocation changes, both after-the fact and prospective changes to the current allocation of an individual's payroll amongst various grants or contracts must be completed via a template change. After-the fact payroll reallocations only should be processed via a payroll correction form. The payroll correction form request will serve as the recertification of time and effort with the following statement:

Upon your signature, you are certifying that you have personal knowledge of the actual EFFORT as shown above for this individual. Timely and accurate filing of this report is required under federal regulations. Under extraordinary circumstances, changes may be permitted.

The payroll correction form should be sent to the Office of Sponsored Programs for review and approval by OSP Accounting. Upon obtaining all relevant approvals, the Office of Sponsored Programs Accounting will process the form in the Lawson Accounting System. If the employees are changing payroll allocations related to a federally sponsored project, the payroll correction form request will serve as the recertification of time and effort.

In all situations of payroll after-the-fact reallocations, a properly completed and authorized Lurie Children's payroll correction form must be submitted to the Office of Sponsored Programs Accounting Office.

#### F. Payroll cost transfers (Physician Staff)

After-the-fact payroll reallocations for physician staff (i.e. PFF, LCMG) should be requested via a fully completed and authorized Other Payroll Correction Request. The other payroll correction form request will serve as the recertification of time and effort with the following statement:

Upon your signature, you are certifying that you have personal knowledge of the actual EFFORT as shown above for this individual. Timely and accurate filing of this report is required under federal regulations. Under extraordinary circumstances, changes may be permitted.

#### G. Non-payroll cost transfers

A fully completed and authorized Lurie Children's Transaction Correction Form must accompany all non-payroll cost transfers. Lurie Children's Transaction Correction Form which are not fully completed or lack the required documentation will be returned to the requestor along with a memorandum explaining why the cost transfer request does not meet Lurie Children's policy requirements.

Cost transfers that may be excluded from the special documentation and authorization requirements include:

- Transfers to allocate monthly charges benefiting multiple projects based on a verifiable and reasonable cost accounting method.
- Transfers between cost centers funded under the same federal award are considered “intra award reallocations”. Although these transactions are not considered “cost transfers”, they require the use of the Lurie Children’s Transaction Correction Form

#### H. Closely related work

When the work supported by one sponsored project is determined to represent work closely related to that of another sponsored project, a cost transfer from one of the fund numbers to the other might be legitimately made. At a minimum, the following conditions must be met to justify a cost transfer on the grounds that the activity qualifies as “closely related work”:

- The projects are scientifically and technically related.
- The projects are under the direction of the same principal investigator.
- There is no change in the scope of the sponsored projects involved.
- The relating of costs will not be detrimental to the conduct of work under each award.
- The relatedness will not be used to circumvent the terms and conditions of the award.

#### I. Roles and responsibilities

Principal Investigator/Designee to:

- Reconcile fund reports monthly
- Ensure compliance with the Lurie Children’s Cost Transfer Policy
- Ensure that personnel under their direction, engaged in the financial administration of grants and contracts, are familiar with Lurie Children’s Cost Transfer Policy.
- Provide authorizations as per this policy.

Department/Division/Program:

- Ensure that department/division/program personnel engaged in the financial administration of grant and contracts are familiar with Lurie Children’s Cost Transfer Policy.
- Assist the principal investigator in preparation of properly completed, justified, and authorized cost transfer requests in accordance with Lurie Children’s Cost Transfer Policy.

Office of Sponsored Programs:

- Prompt review and submission of research proposals, grant and contract negotiations, internal issuance of Notice of Grant Awards (NGA), execution of subcontracts, and approval of Preaward Spending Account Request to facilitate timely set up of grant and contract cost centers on the accounting system.

Office of Sponsored Programs Accounting:

- Review cost transfers for compliance with Lurie Children's Cost Transfer Policy.
- Process properly completed and authorized transfers to the accounting ledger.
- Timely establishment of award fund number on accounting ledger, upon receipt of Notice of Grant Award (NGA), fully executed subcontract, or properly completed Pre-award Spending Account Request
- Timely and accurate distribution of monthly financial reporting on grants and contract awards.
- Retain all hard copy cost transfer documentation, to be available upon audit, in accordance with applicable record retention regulations.
- Ensure that all personnel engaged in the financial administration of grant and contracts are familiar with the Lurie Children's Cost Transfer Policy.