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Responsible Official: Assistant Vice President of Post Award Services and Compliance

Responsible University Office: Post Award Services and Compliance

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SALARY ADJUSTMENTS AND COST TRANSFERS Policy

University and Federal policies require prompt transfers of both salary and non-salary costs to sponsored project accounts. Every effort should be made to ensure that salary and non-salary costs are charged to the correct account(s) when they are incurred. Expense statements should be reconciled on a monthly basis to confirm that activities charged to sponsored projects are **reasonable, consistently treated, allocable, and allowable** in accordance with applicable Federal regulations, the Uniform Guidance, 2 CFR 200.

In the event that an adjustment is necessary, **all transfers, both salary and non-salary, to sponsored projects should be made within 90 days of the end the month in which the charges were initially posted**. Cost transfers should be used to correct errors. Cost transfers may not be made for the purpose of spending down a grant. Cost transfers may not be made from one sponsored project to another for the purpose of clearing an overdraft.

Inappropriate charges made to sponsored projects must be removed regardless of timeframe. The department is responsible for transferring the inappropriate charge to a departmental, discretionary, or unrestricted speedtype.

In order to maintain consistency in the treatment of cost transfers, the University policy applies to all sponsored projects, regardless of the sponsor.

Reason for Policy

Frequent, late, and poorly explained cost transfers raise questions about the appropriateness of expenditures and the effectiveness of the University's and the department's procedures and internal controls. Cost transfers are commonly reviewed when an account, department, or university is audited.

When an auditor reviews cost transfers, **the burden of proof regarding allowability is on the University and the department rather than on the auditor**. The auditor will consider *multiple* factors in determining whether the cost transfers reasonable and allowable on a sponsored project. The entire set of circumstances will be examined during an audit to determine reasonableness and allowability. Key factors that auditors consider include:

□ Timing of Transfer

- Length of time between a charge's appearance on an expense statement and when the cost transfer occurs.
- Processing of a cost transfer after a grant has ended. Such transfers are suspicious by nature and must be particularly well justified, especially with respect to timing.

□ Amount of Transfer

- Transfers of partial amounts. This practice should be avoided where possible, but if unavoidable, must also be particularly well justified.
- Transfer of effort percentages. These must be reasonable and reflect actual effort spent.

□ Reason for Transfer

- Impact of the cost transfer (i.e. does it remove an over expenditure to balance out a project? Does the transfer only serve to expend an unobligated balance?).

□ Frequency of Transfer

- Frequency of expense statement reconciliation. This issue has been raised as a finding during the University's single audit in the past. It is critical that expense statements be reconciled on a timely basis in order to facilitate the timely processing of cost transfers.
- Numerous cost transfers, especially those made to correct errors in the initial recording of costs. These transfers may indicate the need for improvements in the University's and department's accounting system and/or internal controls. Therefore, where such errors occur, grantees are encouraged and may be required to evaluate the need for improvements in these areas and to make the improvements deemed necessary.

Responsibility:

Principal Investigators (PIs) take primary responsibility for ensuring compliance with federal regulations as well as the monitoring of expenditures, timely correction of errors, and proper allocation of expenses.

Staff who post journals, reviewers and approvers of journals also bear responsibility for cost transfer processing and classification of university expenditures. Spending is the responsibility of the departments that administer sponsored projects and should be consistent with the University's mission and the terms and conditions of external sources. If a person believes an expenditure is noncompliant, he or she must report it to one of the following university resources: Post Award Services and Financial Compliance, the Office of Sponsored Program Administration, the Office of Audit Services, the Office of Counsel, or the Integrity Hotline. The appropriate central administration office will review the circumstances and determine the appropriate course of action.

Procedure

Salary Transfers:

Salary adjustments (cost transfers) must be processed through the PeopleSoft HCM system. Transfers to or between sponsored projects will be routed to the Controller's Office for approval. Transfers of salary expenses are subject to additional scrutiny and must be well justified. The justification must explain; 1) why the project or speedtype that is being credited was initially charged; 2) why the charge belongs on the sponsored project being charged, and; 3) why there was a delay (if any) in transferring the charge to the proper project. Additional information on specific circumstances (transfer after 90 days, transfers that impact reporting, etc.) that may be involved is found in the Discussion section.

Six month limit for salary adjustments:

Effective December 1, 2006, the PeopleSoft HCM system will no longer permit salary cost transfers in excess of six months from the end of the month that the distribution first appeared. This change applies regardless of the speedtype involved (e.g., operating, endowment, instruction,

etc.). This six month window is a systematic limit and does not apply to sponsored projects which are limited to the 90 day rule mentioned above.

Non-Salary Transfers:

Non-salary cost transfers must be processed through the PeopleSoft Financials system using a journal entry. The journal description must provide adequate justification explaining why the transfer is being made. Non-salary cost transfers affecting sponsored projects require that supporting documentation be attached to the journal in Peoplesoft. Such documentation must include a copy of the expense or ledger statement for the speedtype that is being credited. Additional information on specific circumstances (transfer after 90 days, transfers that impact reporting, etc.) that may be involved is found in the Discussion section.

Discussion

Cost Transfers for Activity in Excess of 90 Days from the Month the Charge First Appeared:

Journals correcting charges to sponsored projects for postings more than 90 days old will be processed only under extenuating circumstances and a completed Late Cost Transfer Justification Form must be included with the supporting documentation for the transfer. This should be attached to the Peoplesoft journal for non-salary transfers or forwarded to the appropriate business office for salary cost transfers. The Late Cost Transfer Justification Form can be found on the Office of Research Administration website at <http://www.case.edu/research/resources/forms-policies/>. Supporting documentation may include a copy of the related Notice of Award, sponsor correspondence, etc. Inappropriate charges should be removed from sponsored projects regardless of the amount of time that has passed. Such charges may not be eligible to be transferred to another sponsored project, but may be moved to a discretionary, departmental, or unrestricted speedtype without a Late Cost Transfer Justification Form.

After End Date Cost Transfers:

Cost transfers that occur after the end date of a sponsored project or affect an over-expended project are particularly susceptible to audit scrutiny. Such transfers require additional justification and/or documentation unless these costs are being moved to a sub-account within the same project.

Cost Transfers and Effort Certification or Final Financial Reports:

Cost transfers for employees who have already certified their effort for the reporting period in which the transfer falls are generally not permitted unless unusual circumstances exist. Payroll distribution and certified effort must agree.

If a cost transfer is requested that would result in a variance over the accepted tolerance of certified effort, a Request to Recertify the Effort Report is required as part of the supporting documentation. Details on this process can be found on the Effort Reporting Website at <http://www.case.edu/research/faculty-staff/award-mgt/effort/>.

If a cost transfer is requested on a speedtype for which the final Financial Status Report or Final Invoice has been issued, the cost transfer will not be permitted unless the transfer(s) was anticipated as a part of the close out process or the charge was unallowable.

Closely Related Work and Allocation of Costs

When salaries and/or other activities are being supported by two or more sources, costs should be allocated among the sources of support in a reasonable, documentable manner that reflects the actual benefit to the projects involved. If a cost benefits two or more projects or activities in proportions that can be determined, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities, the costs can only be allocated to those projects based

upon a recognized cost accounting basis. For example, if equipment maintenance costs are to be allocated one-half to one project and one-half to the other, there needs to be documentation to support the allocation. Such documentation may be a usage log or percent of effort that the lab technicians spend on each project, provided there is a correlation between machine usage and technician effort.

Tools to Avoid Cost Transfers

A majority of cost transfers are due to delays in obtaining sponsored project funding or to delays in obtaining an end date extension for existing funding. Two primary tools can be used to avoid cost transfers related to such delays:

1. **Preliminary Account Number** - If departments are waiting for new sponsored funding or competing funding which would result in the issuance of a new project number, then a preliminary account number may be requested. This request is completed in Sparta via a Follow-on-submission to the original funding proposal for the award. Departments should **attach supporting documentation to substantiate that funding is forthcoming**. The request should be approved by the principal investigator, the department chair, and the respective management center and be processed through the Office of Pre Award Services and Agreements. For the School of Medicine, the Office of Grants and Contracts serves as the management center representative and also as the end processing point for awards based in the School of Medicine. Note that if sponsored funding is not obtained, the costs incurred will be the responsibility of the department and may not be transferred to another sponsored project unless the department can demonstrate that the projects are scientifically related.

2. **Petition** – This request is completed in Sparta via a Follow-on-submission to the original funding proposal for the award. The Petition is used if departments are awaiting non-competing funding and/or an end date extension (no-cost extension) for an existing project. The required supporting documentation, approval process and routing for the petition form is the same as for the preliminary account number above. As with preliminary account numbers, if the funding or the end date extension is not obtained, the costs incurred will be the responsibility of the department and may not be transferred to another sponsored project unless the department can demonstrate that the projects are scientifically related. Also, petitions can only be active for three months. A new petition should be filed only if departments can justify the reason for the delay and demonstrate that funding is still forthcoming. The most frequent need for a second petition is a delay in sponsored contract negotiations.

Samples of Cost Transfer Justifications:

1. Questionable Justification - “To transfer overage to related Project.”

Reason - Transfer of overages from 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, per supply usage manuals kept in the lab. Thus 50% of the cost of the highlighted items is being transferred.”

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

Reason - Insufficient explanation of why and how the clerical error occurred. In general, this explanation is only adequate if a transposition error occurred, and this should be stated.

Remedy - Explain the nature of the clerical error.

Acceptable Justification – “The technician who ordered supplies used the account number of a project which was terminated. 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 insufficient justification for charging another project. The expense must have been incurred in relation to the project being charged.

Remedy - The maintenance cost can only be charged to a project which benefited from the expense. If none are available, then the cost must be transferred to a cost share account.

Acceptable Justification – “To transfer 1/2 of the maintenance charges to Dr. Smith’s NIH project on which the related equipment was used. The other 1/2 is being transferred to the cost share account.”

4. Questionable Justification – “To charge appropriate account”

Reason - This does not adequately explain why the wrong account was charged. Why is the account being debited more appropriate? How was the amount transferred determined?

Remedy - Explain why the account 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.” Note: for a more complete explanation, indicate the duties that were performed by the technician.

5. Questionable Justification – “To charge salary at \$500 per month for four months to Dr. Smith’s NIH project.”

Reason - Salary charges must be determined as a percentage of effort for faculty and exempt staff or as number of hours worked if the employee is non-exempt or hourly. The amount of effort transferred as well as the reason for the transfer must then pass the test of reasonableness. Why was the correct amount of effort not distributed to the account? Has Dr. Smith been charged to this account before? Is this consistent with effort budgeted?

Remedy - Explain how the amount was determined and why the account being charged wasn’t charged correctly.

Acceptable Justification – “To charge 25% of Dr. Smith’s salary for the month of June to his NIH account. Administrator was not aware that Dr. Smith increased his effort in order to begin aim two of the

research.” Note: Since salary transfers must reflect effort rather than dollar amounts, the amount transferred may not be the \$500 in the original justification.

6. Questionable Justification – “To charge 10.6% of Dr. Smith’s salary to the appropriate account.”

Reason - In this particular instance, 10.6% was just enough to close out the account. 10.6% is the equivalent of 3.975 hours which would have been difficult, if not impossible, to justify to an auditor.

Remedy - None. The amount transferred and the reason for the transfer must be well documented.

7. Questionable Justification - ”To charge a portion of temporary employee’s salary to the project.”

Reason - The reason for the transfer needs to be included. What was the person’s role on the project? Also, the amount transferred must be adequately justified (10%, 20%, 100%, etc.).

Remedy - Indicate what the person’s role on the project was and how the amount was determined.

Acceptable Justification – “To transfer 50% of the temporary technician’s salary to Dr. Jones’ project. This person split time equally between the NIH project and the American Heart Association project.”
Note: for a more complete explanation, indicate the duties that were performed by the technician.

8. Questionable Justification - “To transfer \$500 of supply costs to the appropriate account.”

Reason - The amount transferred must be adequately justified as well as the reason for the transfer. Are projects related? Why, other than clerical error, wasn’t order charged to the proper account?

Remedy - Explain how the amount was determined and why the account being debited should be charged. Acceptable Justification – “To transfer 50% of supplies to Dr. Smith’s NIH account. Supplies are to be shared equally between the two related projects that used the supplies per lab usage records. The supplies were used to perform assays described in specific aim number 2 of the NIH project. The project being debited did not yet have an account number when the supplies were ordered.”

9. Questionable Justification - “To split maintenance charges between related projects.”

Reason - The amount transferred must be adequately justified and reasonable. Also, indicate whether equipment was used to support the project being charged.

Remedy - Indicate how the amount transferred was determined and why the account being debited wasn’t charged when the bill was paid.

Acceptable Justification – “To transfer 50% of the maintenance costs to Dr. Smith’s NIH account. These costs are to be shared equally between the two related projects. The administrator was not informed that the equipment was going to be used for Dr. Smith’s NIH project. The maintenance agreement is for the DNA sequencer used for specific aim 1 of the NIH project.”

10. Questionable Justification – “To transfer after end date charges to the appropriate accounts for the month of July.... we did not get a chance to determine which one of Dr. Smith’s grants would be able to support the above technician other than his NIH grants.”

Reason - The account charged must be a function of where the services were actually provided. Allowability must be determined before effort is expended on, and distributed to, a project.

Remedy - If effort is contributed to a project which doesn’t allow payments to that expense class, then charges must be transferred to the cost share account. You may want to consider reclassifying the employee to permit future charges.

Help

For guidance on cost transfers, call the Office of Post Award Services and Financial Compliance at 368-4510 or your Management Center.