

## 6. Cost Transfers

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### Introduction

A cost transfer is a reassignment (transfer) of charges within or between cost centers, internal orders, or WBS elements. They are created in departments, labs, or centers to bill inter-departmental costs, to adjust billing errors, or for other reasons associated with the department's regular financial operations. When cost transfers to move expenses involve sponsored projects it is critical that the transfer meets the rules for allowability, allocability, reasonableness and consistency (See Chapter 1: The Environment for Research).

A journal voucher is the SAP document used to process a cost transfer. Although costs should always be charged to the correct WBS cost object when they are incurred, cost transfers are sometimes necessary.

### When Are Cost Transfers Allowed?

MIT allows cost transfers involving sponsored projects only in special circumstances, including:

- Error correction.
- Transfers between cost objects of the same sponsored project (e.g., child to child, parent to child, child to parent).
- Costs benefiting more than one sponsored project.
- Transfer of retroactive expenses (including pre-award costs) on a project necessitated by a delay in finalizing contract negotiation.

*Any time you initiate a transfer, you invite the assumption that the transaction was not handled properly initially. If expenses are being transferred to a sponsored project, there will be considerable scrutiny of the reasons for the transfer, and the justification for moving those charges.*

If a project has an overrun, there's a presumption that any proposed cost transfer is to alleviate the overrun, and it would not be allowed - the barrier is very high for these types of transfers, and difficult to overcome the presumption. If you encounter this situation, please contact your OSP Representative for guidance. To bring the project into balance, a funding entry must be made, using the "record project overrun" GL account, 420314.

### Criteria for Cost Transfers

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#### What is the criteria for a cost transfer involving sponsored projects?

Cost transfers must be:

#### 1. Conform to Institute and sponsor policies (is it allowable, allocable, reasonable and consistent?)

#### 2. Timely

- Cost transfers should be prepared and submitted as soon as the need for a transfer is identified but no later than 90 days after the posting is made and/or within 30 days of the project end date, whichever comes first.
- Cost transfers exceeding this time frame will require additional documentation as to why the transfer request was not made on a timely basis.

#### 3. Fully Documented

Cost transfers must contain a justification that clearly shows:

- Benefit to the receiving project.
- Allowability and allocability to the new sponsored project.
- Reason for transfer.
- Systemic causes are corrected so they will not recur.
- The reason for any delay in the timely processing of the transfer if the transfer date exceeds the time frame in Item 2, above.
- It was reviewed by a knowledgeable person (PI).

A good justification will allow anyone reviewing the cost transfer to understand how the expense benefits the receiving sponsored project.

It should answer: **who, what, where, when, and why.**

It should be easily understood by anyone reviewing the journal voucher (think: "if I leave, will an auditor be able to understand this two years from now?"). It may include

documentation to support the justification. Some examples of documentation are:

- Allocation methodology.
- An invoice or packing slip.
- Notes on an expenditure statement, “per PI ...”

#### 4. Have appropriate approvals

### Cost Transfers: Examples

#### Example 1:

##### Inadequate

*“To allocate chemicals from department cost object to the appropriate WBS.”*

##### Adequate

*“Department X used a department general cost object to collect all department chemical charges. All charges to sponsored projects were proposed and approved consistent with MIT and sponsor policy and included in the proposal budget. Documentation, including allocation methodology, is in departmental files.”*

The inadequate justification does not address the questions of whether or not the chemical charges are allowable and allocable to the WBS to which they are being charged through the cost transfer.

The adequate justification states that the department is aware of the documentation requirements for these charges, attests that all requirements have been met, and states where the documentation records can be found. The length of a justification is irrelevant. A justification must include the pertinent facts, be succinct, and be easily understood by anyone who may read it now and in the future.

#### Example 2:

*Does this journal voucher explanation provide adequate justification?*

Lab A purchased \$600 in lab supplies in June, 2004. They processed a Journal Voucher in October 2004 for the supplies, stating in the remarks that “per a conversation with the PI, it was determined that these expenses were charged

to an old cost object in error. This journal entry is to transfer that expense to an appropriate WBS for a different project.”

*Would you accept this as adequate justification?*

- Did they state the original error?
- Is the expense allocable to the new WBS?
- Was the transaction documented and processed in accordance with policy?

*This journal entry would not be accepted as adequate documentation for this transfer for the following reason:*

- Based on the information provided, it is unclear how to evaluate the appropriateness of the transaction. (How did the PI know that those supplies benefited the other project? Did he review an expenditure statement? Project Budget?) Why is it important to have timely, well-documented and carefully justified cost transfers?

- 1) Any time a transfer is initiated, the assumption is that the transaction was not handled properly initially. If expenses are being transferred onto a sponsored project WBS element, there will be considerable scrutiny of the reasons for the transfer and the justification for moving those charges.
- 2) Frequent and poorly documented cost transfers may indicate problems in the management of research.
- 3) Federal auditors scrutinize more closely the allowability, allocability, and reasonableness of cost transfers.
- 4) Federal research sponsors are giving increased attention to the reason behind cost transfers from and to sponsored projects.
- 5) There is a significantly increased audit risk for cost transfers made beyond the approved guideline.

### Cost Transfers: Summary

When preparing a Journal Voucher to transfer an expense, review the transaction and the documentation provided to support it.

Have you clearly shown that:

- The expense directly benefits the receiving project.
- The expense is allowable on the receiving cost object (including Administrative Charges policy).
- There are no restrictions which preclude this transfer (e.g., restrictions on travel or equipment).
- The transaction meets all sponsor requirements.
- The transfer complies with all MIT policies.
- The reason the expense was charged incorrectly to the first cost object.
- The reasons for any delay in a timely processing of the transfer.
- Any systemic problems which might cause this problem to be repeated have been addressed.

**Key References** - See website links in Appendix and on the OSP home page

- ▶ CAO Training Classes
- ▶ MIT Training
- ▶ Creating Journal Vouchers
- ▶ SAP Journal Voucher Uploads
- ▶ SAPweb

## Transferring Expenses Off a Sponsored Project

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Figure 6.1

