

# ON TRACK!

SPONSORED PROGRAMS ACCOUNTING- QUARTERLY: NOV 2008

**Mission of this newsletter:** *To keep campus aware of updates and changes in research policies and to share best practices*

## WHAT IS A COST TRANSFER?

A cost transfer is an after-the-fact reallocation of an expense from one project to another. Other familiar terms for cost transfers are journal entries, journal vouchers, and salary reallocations.

When considering a cost transfer, remember to ask the same questions you ask when charging the original expense to an award. Is the cost reasonable, allowable, and allocable to the project the expenses are being moved onto?

What are some reasons to do a cost transfer?

- 1) To correct clerical errors
- 2) For costs incurred in connection with an anticipated award that fails to materialize.
- 3) When charges directly benefit more than one project and, therefore, a distribution of costs is justified based on the percentage of benefits received.
- 4) To move costs outside of the budget period and/or project period of the award.
- 5) To move disallowed costs.

Cost transfers are not appropriate:

- 1) For the purpose of utilizing unexpended funds of another award
- 2) To get around award restrictions

(See **TRANSFER** page 2)

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### Special Points of Interest:

How we can improve?  
We need to know what you need!

## WHAT IS A "LETTER OF GUARANTEE" AND WHEN SHOULD YOU USE ONE?

A Letter of Guarantee is an index which is set up prior to receipt of an award. When the actual award is received, the index becomes the project account. This procedure is used only when it can be determined the eventual receipt of a sponsored project is fairly certain. By setting up a Letter of Guarantee, the expenses can be put directly to the appropriate

index up front. This avoids many cost transfers and auditor questions later on.

A Letter of Guarantee Request Form can be located on the Sponsored Programs web site. [http://spo.usu.edu/files/uploads/Letter\\_of\\_Guarantee.pdf](http://spo.usu.edu/files/uploads/Letter_of_Guarantee.pdf) Once this form is filled out and signed by the PI, the Department Head, and the Dean, and an unrestricted index is provided to

guarantee coverage of expenses should the award fall through, an index number will be assigned by the Sponsored Program Accounting group and the project index will be set up in Banner. The form indicates that the PI, Department Head, and Dean will assume responsibility of covering the costs incurred on the project if the award is not (See **LETTER** page 2)

(TRANSFER from page 1)

3) For reasons of convenience

An expense cannot be moved more than once. Once you have researched out the problem and determined where the expense should have gone originally, there is no reason to move it again to a different account.

Cost transfers must have sufficient justification on the request for journal voucher.

- 1) Justification should include pertinent facts and be easily understood by anyone who may read it now and in the future.
- 2) Cite specific reasons, not general circumstances. Why was the cost applied to the wrong account to begin with?
- 3) How will the expense benefit the project that the cost is being moved to?
- 4) Are the charges allowable and allocable based on the terms and conditions of the project that the cost is being moved to?

On contract/grant accounts, a transfer must be submitted within 90 days of the original transaction, or within 60 days of the project end date. If the requests are not submitted timely, an explanation of the delay will be required before processing the journal entry. Refer to the cost transfer policy for the procedures to do a cost transfer and the additional requirements when moving an expense past 90 days.

<http://www.usu.edu/hr/policies/section500/581.pdf>

Cost transfers are still on the hot topic list for auditors. Here is a reminder list of some areas auditors are looking at.

- 1) An excessive number of cost transfers. Large numbers of transfers may be an indication of a lack of internal controls within the unit. One of the questions an auditor might ask is “why can’t you charge the expenditures to the right account up front?”
- 2) Transfers made near the end of an award. A lot of transfers moving expenditures onto an award near the project end date can give the appearance of utilizing unspent funds.
- 3) Moving over budgets from one award to another award. This type of transfer is highly questionable to federal auditors and hard to justify.
- 4) Salary reallocations made after the effort has been certified. This type of transfer suggests a lack of internal control and that time and effort reporting was not given adequate attention in the review and certification process.
- 5) Inadequate explanation of transfers. Proper documentation for a transfer would include an explanation of why the expenditure was on the wrong account, how it benefits the account it is being moved to, and why there was a delay in making the correction if the entry is outside the time period specified in the University’s policy.◇

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received. This is the case whether a Letter of Guarantee is used or not.

The biggest benefit to a Letter of Guarantee being established is that many cost transfers are avoided later in the project, thereby reducing work for everyone. Also the auditors are less likely to have questions in an audit. ◇

# Happy Thanksgiving!



**Accountant Contact Information:** See <http://www.usu.edu/controller/spa/index.cfm>