Cost Transfers

Objectives & Key Roles

- **Objectives**
  - Define cost transfers
  - Why are cost transfers high-risk.
  - Explain policy and timing rules

- **Key Roles**
  - Grant Accounting Office (GAO)
  - Principal Investigator (PI)
  - Department Administrator

What Is a Cost Transfer?

After-the-fact reassignment of an expense from one account/fund to another, including movement onto or between sponsored project accounts (funds 500/510).

Why Are Cost Transfers High Risk?

Sponsors expect that costs are charged appropriately at the time incurred and that significant adjustments should not be required if adequate financial management practices and policies exist.

- If an error occurs, a cost transfer must be completed **within 90 days** of the occurrence.

Cost transfers are subject to additional scrutiny to ensure compliance with Federal regulations. The goal is to ensure costs are properly allocated, reasonable, and consistent with Federal guidelines.

Policy Expectations & 90-Day Rule

- **Full policy** can be found at: https://gao.fo.uiowa.edu/managing-grants-contracts/cost-transfers/cost-transfer-policies-and-guidelines
- **Stewardship expectations:**
  - PIs (or delegates) must review fiscal status monthly and promptly correct errors; departments are responsible for preparing cost transfers with PI knowledge and approval.
  - Departments bear penalties, disallowances, or funding losses that arise from non-compliance with this policy.
- **Timing rules:**
  - Cost Transfer Explanation and Justification Request form must be completed within 90 days of the expense posting for charges on funds 500/510.
  - The 90-day limit applies to transfers onto sponsored projects; more restrictive sponsor policies override, and there is no time limit for removing inappropriate costs from a sponsored project.

What Is and Is Not Allowable

- **Generally allowable if timely, documented, and appropriate**:
  - Correcting clear bookkeeping or clerical errors in original charges.
  - Allocating costs between closely related projects when documentation shows that each project benefits and transfers are not used to solve deficits or convenience issues.
- **Not allowable purposes**:
  - Transfers made solely to cover cost overruns, spend down remaining funds, or as a matter of convenience.
  - Charging costs to one sponsored project with the intention of “paying it back” when another award arrives.
  - Reasons such as “error just discovered” or “late notice from PI” are not acceptable bases for late (>90-day) transfers.

Writing Strong Justifications

- **Required content** in the Cost Transfer Explanation and Justification Request:
  - Clear explanation of what is being moved (amount, dates, original and new accounts) and why the original charge was incorrect.
  - Description sufficient for an independent reviewer (auditor) to understand and conclude the transfer is appropriate; generic phrases like “to correct error” or “to move to correct project” are explicitly not sufficient.
- **Good practice elements**:
  - Link the expense to the benefiting project (how it supports the scope of work).
  - Explain timing: why the error occurred and, if >90 days, any extenuating circumstance (e.g., late issuance of award), noting that staff turnover or PI delay are not acceptable reasons.

Documentation, Approvals, and Red Flags

- **Documentation and approval requirements**:
  - Completed and signed Cost Transfer Explanation and Justification Request form, certified by the PI or delegate, with supporting transaction detail and source documentation as needed.
  - Documentation must be retained and available for audit; transfers onto sponsored projects are especially prone to review.
- **Red flags and risk indicators**:
  - Frequent, delayed, or unexplained cost transfers, particularly on projects with overruns or large unspent balances, raise questions about the propriety of the transfers and reliability of internal controls.
  - Any inappropriate expenditures identified on sponsored projects must be moved to a non-sponsored account promptly, without regard to time limits.

Best Practices to Avoid Cost Transfers

Best practices focus on getting charges right the first time, reconciling early, and using good prospective allocation so you rarely need to move costs later.

- Be proactive when working with faculty and staff to ensure the correct project, task, and funding source is selected at the time of purchase or payroll setup.
- Perform monthly account reconciliations and monitor salary distributions and effort at least quarterly.
- For costs that benefit multiple projects, establish and document a reasonable allocation method in advance (e.g., usage logs, FTE, square footage) and charge each project its share at the outset.

References and additional information

- **GAO website**
  - gao.fo.uiowa.edu
    - Cost Transfer Policies and Guidelines
    - DHHS Cost Transfer Policy
    - Cost Transfer Documentation Guidance
    - Cost Transfer FAQs
    - Cost Transfer Forms

- **Contact us**
  - gao.fo.uiowa.edu/contact-us

IOWA

gao.fo.uiowa.edu