

Retroactive Reallocation of Costs – Procedure

Retroactive reallocation of costs (henceforth ‘retro costing’) is a transfer of revenue or expense previously recorded elsewhere on the Vanderbilt University (VU) General Ledger (GL), e.g. from one sponsored award to another, or from an area’s operations to an endowment or gift fund, and identified by VU as requiring institutional approval before it can be posted to the GL.

While retroactive reallocations are to be minimized overall, it is recognized that occasional reallocations will be required. Transfers that are frequent, tardy or inadequately explained, particularly on awards with overruns or unexpended balances, raise questions about the propriety of the transfers and the reliability of the university’s internal controls.

This procedure is complementary to the Retroactive Reallocation of Costs administrative policy and defines processes and procedures surrounding the after-the-fact reallocation of expenses that are considered cost transfers by the university.

Approval Process

Retro costing for compensation expense is initiated by HCM Specialists via entry into the HCM system. Approval from the Business Unit / Entity Approver (BEA) is required both for initiating and receiving (both sides of the transaction) before the Compensation Retroactive Costing Transfer Request Form is submitted to Research Finance. In addition, the requestor must provide a screenshot verifying Payroll costing changes have been made in Oracle as part of the approval process.

Retro costing for non-compensation revenue or expense can be initiated by anyone at VU but approval from the BEA is required both for initiating and receiving before the Non-Compensation Retroactive Costing Transfer Request Form is submitted to Payment Services or Research Finance for grants & contracts. Payment Services initiates the corrections through invoice approval in Oracle.

Threshold

For Project Portfolio Management (PPM) projects, retro costing on compensation expense must meet a \$1,000 threshold or it will not be processed. For grants & contracts, CORES, and donor-restricted gifts & endowments, there is no threshold for retro costing. For compensation, the threshold represents the combination of the total salaries, wages, and benefits impact (inclusive of fringe).

	PPM Compensation Transfer	Net Asset Class	Approver [^]	Threshold
To/from	Faculty Funds	NAC 10	Local	>\$1,000
	Grants & Contracts	NAC 15	Research Finance	No threshold
	CORES	NAC 25	Local	No threshold
	Quasi Endowments	NAC 26	Local	>\$1,000
	Gifts & Endowments	NAC 40	Local	No threshold
	Capital Projects	NAC 45	Local	>\$1,000

[^] All Compensation Retroactive Costing Transfer Request Forms must still be submitted to Research Finance for review, even if they do not relate to grants and contracts.

For PPM projects and in accordance with the AP Corrections Policy, retro costing on non-compensation revenue or expense must meet a \$10,000 threshold or it will not be processed. For grants & contracts, CORES, and donor-restricted gifts & endowments, there is no threshold for retro costing.

PPM Non-Compensation Transfer		Net Asset Class	Approver	Threshold
To/from	Faculty Funds	NAC 10	Payment Services	>\$10,000
	Grants & Contracts	NAC 15	Research Finance	No threshold
	CORES	NAC 25	Payment Services	No threshold
	Quasi Endowments	NAC 26	Payment Services	>\$10,000
	Gifts & Endowments	NAC 40	Payment Services	No threshold
	Capital Projects	NAC 45	Payment Services	>\$10,000

In accordance with VU's Journal Entry Policy, retro costing between accounts, financial units, programs or activities must be made in the source sub-ledger. Retro costing between COAs must meet a \$10,000 threshold or it will not be processed.

Time Period

All retro costing must be submitted within 90 days of the original charge or initially recorded charge and within the current fiscal year.

The 90 day time period begins after the month end close of the period that the original or initially-recorded charge is posted in the GL or PPM sub ledger. This transfer period runs until the transfer request is submitted to Research Finance or Payment Services. The deadline of 90 days is the standard used by the federal agencies and its auditors to determine whether costs are reasonably charged to their awards appropriately. As an institution, VU is adopting this standard for all retro costing activity in support of the movement to GAAP for internal reporting and to create a discipline of reviewing area performance timely (at least quarterly).

Each month, the retro costing cut-off for compensation expense is two business days before the monthly Payroll cut-off. For example, in April 2019, the monthly Payroll cut-off was 12pm on April 18, 2019, so the retro cut-off was COB on April 16, 2019 for retros to be processed in the month of April. Meanwhile, the retro costing cut-off for non-compensation revenue or expense is the 23rd calendar day of each month.

Accounting Treatment

In the event retro costing impacts activity in a prior fiscal year, the source sub ledger must remain in sync with the GL in accordance with VU's Journal Entry Policy. To maintain the integrity of previously audited financial statements, retro costing must be closely monitored, especially where Oracle processes may generate or unwind indirect cost recovery and expenses are shifted between net asset classes (NACs). The Controller must approve all prior fiscal year retro costing impacts and determine appropriate Accounting treatment, e.g. whether a 3020 net assets transfer may be appropriate.

Accounting should be able to review the entries to ensure there are no material adjustments, track them accordingly, and provide them to an external auditor to demonstrate that no material retro adjustments were made in alignment with VU's Financial Reporting Policy. In support of this, Payroll will generate reporting each period summarizing all retros in the current fiscal year that impact prior fiscal years and place it in a central BOX folder that is accessible to Accounting by the last day of the month. (Payroll will run retros as two object groups – one for standard retros and another for exceptional retros.)

Exceptions

Exceptions are rare. Only in extenuating circumstances, will a cost transfer be appropriate beyond the 90 day period. Examples of such extenuating circumstances include charges to endowments made at fiscal year-end, or material (>\$10,000) late charges held by an affiliate unbeknownst to VU. Such transfers related donor-restricted gifts and endowments, grants / contracts, or CORES requires the approval of both the

Associate Vice Chancellor for Finance and the University Controller. All other exceptions require the approval of the University Controller and a justification statement addressing the following questions:

1. Why was the expense not charged originally to the COA / POET to which it is now being requested to be charged?
2. Why should the charge(s) be transferred to the proposed receiving COA / POET? (What is the benefit?)
3. Why are the charges being transferred allowable and allocable to the receiving COA / POET?
4. What corrective action has been put in place to prevent future need for cost transfers of this nature?

Key Terms

GAAP – Generally Accepted Accounting Principles, represents a framework of accounting standards, rules, and procedures governing financial reporting.

Net Asset Class – within VU’s chart of accounts (COA) structure, indicates (a) level of restriction for the related net assets (i.e., unrestricted, temporarily restricted, or permanently restricted); and (b) use of the funds.

Salary Costing – also referred to as labor costing – is the process of determining where to expense a person’s compensation and over which period(s) of time. This is necessary to comply with grant- and contract-funded research as well as the requirements of certain gifts to the university.

POET – The four segment accounting string used to record project related expenses. The segments include Project Number, Organization, Expenditure Type, and Task.

Project Portfolio Management (PPM) – a sub-ledger used to track activities that span multiple fiscal years.

Forms

Retroactive Compensation Cost Transfer Request Form

Retroactive Non-Compensation Cost Transfer Request Form