University of Maryland Fabricated Equipment Procedure

I. Procedure Statement

The University of Maryland (UMD) must ensure property purchased with sponsored project funds is proposed, accounted for, and reported in a manner consistent with the policies and procedures of UMD and applicable sponsor guidelines.

The equipment fabrication process is one method by which UMD acquires property. This Fabricated Equipment Procedure is intended to provide clarification regarding UMD's processes and procedures related to the fabrication of equipment.

II. Definitions

Capital Equipment is an article of nonexpendable, tangible property having a useful life of more than one year and an acquisition or total fabricated cost of $5,000.00 USD or more per unit.

Direct Labor is an employee(s) directly involved in the construction or assembling of fabricated equipment, rather than the administration, maintenance, or other support services related to equipment fabrication, and whose costs are assignable to a specific project.

Fabricated Equipment is scientific or other complex equipment comprised of a number of individual components that are fabricated (built, assembled) into a single functional unit. All components function only as a single unit once constructed and will be collectively disposed of at the end of the useful life of the equipment.

Facilities and Administrative (F&A) Costs are those costs incurred for common or joint objective(s) and, therefore, cannot be specifically identified with a particular sponsored project, an instructional activity, or any other institutional activity. F&A costs are synonymous with indirect costs.

III. Purpose

Periodically, in the course of sponsored projects, there is a need to build a piece of equipment with customized functionality that does not currently exist. This process of fabricating equipment that cannot be acquired 'off the shelf' allows researchers to effectively complete sponsored project requirements.

UMD's F&A Rate Agreement exempts purchases of equipment, but not specifically component parts required for the fabrication of equipment, from the total direct cost base when calculating F&A Costs. Component pieces, and other costs necessary for the fabrication of equipment on campus, may not fall within the $5,000.00 USD equipment purchase threshold. This Procedure implements an F&A waiver on component parts and other costs of the fabrication of equipment that meet the requirements outlined herein.

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To meet the requirements of an F&A exemption under this Procedure, the newly fabricated equipment must be constructed on campus by UMD personnel in a department, lab, institute, or center for use in the performance of a sponsored project. The fabricated equipment is to be used only for research, scientific or other technical activities and must be necessary to carry out the sponsored project.

The F&A exemption implemented by this Procedure is not applicable to any sponsored project that is for the purpose of constructing experimental equipment, such as when equipment is a deliverable or intended for sale or transfer to any organization outside of the University.

IV. Procedures

This section outlines UMD procedures necessary to comply with the requirements for fabricating equipment.

Budgeting

The cost to fabricate equipment must be identified as such in the proposal budget and explained in the budget justification with substantially the following statement included:

"In accordance with the University of Maryland's Fabricated Equipment Procedure, the University has approved the exclusion of fabricated equipment component parts, and related allowable costs from the modified total direct cost base when calculating F&A on the condition that the University shall retain title to the equipment."

The budget justification must describe the equipment to be fabricated as it relates to the statement of work; and detail costs that directly contribute to the fabricated equipment item.

Allowable Costs as part of a fabricated equipment budget are:

- Materials, supplies, and component parts;
- Freight or shipment costs of materials, supplies, and component parts;
- Non-salary services, such as machine shop charges;
- Software costs that are an integral component and required for the fabricated equipment to function;
- Design drawings and blueprints;
- Testing costs to confirm proper assembly and functionality of the fabricated equipment; and
- Direct Labor and installation costs for construction of fabricated equipment.

Non- allowable Costs as part of a fabricated equipment budget are:

- Standard items that are altered or customized to make them usable;
- Components connected together physically or virtually in a system, such as individual computers and servers joined to create a network;
- Components greater than $5,000.00 USD and are not physically attached or can function independently of the fabricated equipment;
- Equipment that can be acquired "off the shelf" from a vendor or commercial supplier to carry out the sponsored project;
- Maintenance or service contracts;
- Repair or replacement parts associated with 'off the shelf' equipment; and
- Other costs deemed unrelated to or cannot be adequately justified as part of the fabrication process.

The proposal budget should exempt from F&A only those items that meet the conditions of this Procedure and are considered allowable costs necessary for the fabrication of equipment.

If after award it is determined that fabricated equipment is necessary to carry out the sponsored project, a revised budget and budget justification must be submitted to the Office of Research Administration (ORA). The revised budget must include the level of detail identified above that would have normally been submitted at the proposal stage. Additionally, the revised budget must include a statement explaining why the costs were not initially included at the proposal stage and a justification as to the need to fabricate equipment to complete the sponsored project. ORA will review the revised budget request and seek sponsor approval, if required. Once approved ORA will set up a separate child account for the fabricated equipment.

Accounting

The University of Maryland DS-2 CAS Disclosure Statement sets forth the capitalization threshold and treatment of capitalized assets.

Once the award is received, ORA will set up a parent account in Kuali Research (KR). A separate child account at 0% F&A will be established in KR for allowable charges necessary to fabricate equipment. All equipment component purchases, even those over $5,000.00 USD, must use the object code 4348 [Components for Constructed Equip] or 4349 [Federal-Components for Constructed Equipment], as appropriate. The code 4348 is used only for fabricated equipment that will vest with the University. If award terms and conditions require the University to request disposition of equipment, use code 4349. In accordance with closeout procedures, the Sponsored Programs Accounting and Compliance Office (SPAC) will request that the fabricated equipment constructed using code 4349 vest with the University.

Inventory Control

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The UMD Inventory Control Office creates the fabricated equipment asset and maintains a record of it in the inventory system. The continued maintenance of accurate records for equipment purchased with sponsored project funding is the shared responsibility of the principal investigator and department.

When planning to fabricate equipment, the department must inform the Inventory Control Office to start the process of creating an asset in Kuali Financial Systems (KFS). This will require the department to provide a description of the asset, the KFS number for the charges, the person responsible, location of the asset, and the tag number. Once the asset is created, the department must use it to track costs associated with the equipment fabrication and identify it in the purchasing process. The fabricated equipment asset number must be entered in the Pcard transactions log in order to use 4348 or 4349 object codes. Until the time that a field is added in KFS for the asset number, this information must be provided to Inventory Control Office.

The department must notify the Inventory Control Office once the equipment fabrication is completed. The fabricated equipment will then enter In-Service status. KFS will identify the In-Service Date for the fabricated equipment.

Modifications

The F&A waiver on component parts and other allowable costs associated with fabricating equipment will apply with respect to the modification of an existing piece of fabricated equipment provided the modification is within two (2) years of the In-Service Date *and* will increase the value of the equipment by at least $5,000.00 USD. The In-Service Date will not change as a result of any modification(s). Adding individual components to an existing stand-alone equipment, such as upgrades to computers or other existing equipment is not considered a qualifying modification under this Procedure, therefore, these modification charges will *not* be exempt from F&A.

Closeout

The Principal Investigator and department are accountable for its own fabricated equipment, including maintaining appropriate financial records, and tracking the location and status of equipment.