

7. Equipment Purchase & Property Management

Major and Minor Equipment

Equipment is an article of nonexpendable tangible personal property. MIT further distinguishes between capital equipment (unit cost of \$3,000 or greater) and minor equipment (unit cost between \$500 and \$2,999).

In addition, equipment:

- Must have a useful life of more than one year; and
- Must be moveable, i.e., not be affixed to the building or structure. (Example: an air conditioning unit that you install into a window that can be removed and placed in another window would be capital equipment, but paying for ducting and vents and installing them into the roof/ceiling, etc. would be a renovation project, not equipment, because the building shell had to be modified.)

Capital (Major) Equipment

Federal government regulations allow institutions to set their own capitalization threshold up to \$5,000. MIT's policy defines capital equipment as equipment with an acquisition cost of \$3,000 or more and a useful life of more than one year.

Additionally, the federal government does not allow capital equipment to be included in the Modified Total Direct Cost base. It is for this reason that F&A cannot be recovered on capital equipment charged to research awards.

Minor Equipment

Minor equipment is defined as equipment with an acquisition cost between \$500-\$2,999. Minor equipment is included in the Modified Total Direct Cost base. Therefore, F&A is applied to minor equipment charged to research awards. Minor equipment is not subject to sponsor requirements governing capital equipment.

Sponsor Terms and Conditions for Major and Minor Equipment

Purchases of capital equipment are subject to agency/sponsor regulations and award terms and conditions. Requirements associated with the purchase of minor equipment are consistent with those for materials and services.

It is important to check the terms and conditions of any particular award for information related to the acquisition, ownership, and disposition of capital equipment. Some awards do not allow the purchase of particular types of equipment, general purpose equipment for example, while other awards are made specifically for the purchase of equipment and do not permit other types of expenditures. Some awards require pre-approval by the sponsor before equipment may be purchased. The appropriate terms and conditions appear in the Notice of Award; they can also be found in the COEUS Award Management System.

Purchasing Equipment on Sponsored Research Projects

Prior to purchasing any equipment for a sponsored project the following questions should be asked:

- Is the equipment necessary for the performance of the project?
- Is this equipment allowable? (according to sponsors terms and conditions)
- Is equipment purchase reasonable?
- Is this equipment purchase allocable to the project?
- Is the timing of the purchase consistent with the period of performance? (i.e. not purchased at the end of the project)

Is this equipment allowable?

Equipment that is purchased on a sponsored project must be necessary for the performance of the project and be consistent with Federal regulations, the requirements of

the sponsor and the terms and conditions of the award to which the equipment will be charged.

When it is anticipated that the performance of a sponsored project will require acquisition of equipment, the PI and DLC administrator should review the program announcement, solicitation, sponsor's policy, etc. to ensure that the equipment is allowed on the project prior to submitting the proposal. In some situations the sponsor will require a detailed listing and written justification for all equipment purchases.

Prior to making any equipment purchases, the PI and DLC administrator should review the terms and conditions of the Notice of Award from OSP to make sure that there are not any sponsor provisions that precludes the equipment purchase without sponsor approval. Here are a few examples of sponsor clauses regarding equipment purchases:

- Equipment may be purchased without approval.
- General purpose items may not be purchased without prior approval.
- All equipment purchases require prior approval.
- Equipment may not be purchased.

Is the equipment purchase reasonable?

The purchase of equipment must be reasonable with respect to timing and cost. If equipment is necessary for the performance of a project, it is anticipated that the equipment will ordinarily be purchased in the initial stages of the project, not at the end of the project. The purchase of equipment should also be reasonable with respect to cost. While it may be impossible to precisely budget for the acquisition cost of equipment at the time the proposal is submitted, under normal circumstances the actual purchase price of equipment should approximate the amount in the approved award budget.

It is important for the PI to review the sponsor policy and terms and conditions of the award before using funds approved for equipment purchases for other purposes, or to use other award funds to purchase equipment. Sponsor policies and award terms and conditions vary in the amount of flexibility that the PI has in rebudgeting award funds between various cost categories.

Use of Equipment During and After the Period of Project Performance

The PI and DLC administrator should review the sponsor policy and award terms and conditions to determine what restrictions, if any, exist for the use of equipment. The primary use of equipment purchased on a federally sponsored project should be for the performance of that sponsored project. However, federal regulations include a "hierarchy of use" that permits the equipment to be used for other federal projects; first on other projects funded by the agency that paid for the equipment and next on projects funded by other federal agencies.

After the period of performance there is typically no restriction on MIT's use of sponsor-funded equipment if MIT retains title. When the sponsor retains title to the equipment it has funded or furnished, the sponsor's policies and award terms and conditions should be reviewed to determine the appropriate use and disposition of the equipment.

For questions regarding inclusion of equipment items in proposals, contact your OSP Contract Administrator (see Appendix or OSP website for unit list). For questions regarding equipment purchases, tagging and recording, contact the Property Office (see Appendix or Reference Manual on OSP website for website link).

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

- ▶ OSP Contract Administrator List (by Unit)
- ▶ Property Office

Types of Equipment

Special Purpose Equipment is equipment used only for research, medical, scientific, or other technical activities.

General Purpose Equipment is equipment, the use of which is not limited only to research, medical, scientific, or other technical activities. Examples of general purpose equipment include office equipment and furnishings, reproduction and printing equipment and motor vehicles.

Similar to the rules for the direct charging of administrative expenses, a parallel requirement for adequate budget justification exists whenever "general purpose" equipment is charged to a project. Federal regulations stipulate that

the cost of multi-use equipment used for general purposes should not be direct-charged to sponsored projects. Multi-use general purpose equipment should be purchased using unrestricted funds. If general purpose equipment is necessary for the performance of the sponsored project, the budget justification should include detailed information linking the equipment acquisition to the technical work of the project.

Fabricated Equipment - Many research projects include the design, development and building of equipment that is not available commercially. Equipment that cannot be purchased “off the shelf”, and is built by the research team, is fabricated equipment. (There are instances where the whole research project is the fabrication of equipment.)

Characteristics of Fabricated Equipment

- Unique, specialized equipment.
- Not commercially available.
- Useful life of more than 1 year.
- Aggregate cost of materials and services is \$3,000 or more (excluding labor costs).
- May require sponsor approval.

For example: The act of putting together a CPU, monitor, and keyboard does not meet the definition of a fabrication, since the computer system is not unique.

Establishing a Fabricated Equipment Cost Object

Fabricated equipment costs are held in a special child cost object until the completion of the fabrication. To establish a fabricated equipment cost object, the research administrator provides the Property Office with the following information:

- A description and diagram of the fabricated item to be constructed,
- Parent WBS cost object,
- Total budget estimate of allowable costs including description, quantity, unit cost and vendor(s) (if known),
- Estimated **useful life** of the fabrication when complete,
- Location of the equipment during fabrication, location of the completed fabrication and name of the responsible person.

See the CAO website for allowable general ledger codes for fabricated equipment cost estimates.

The Property Office will in turn:

- Determine if the request complies with the requirements to have a fabricated equipment cost object and if so;
- Contacts OSP to review for compliance with the terms and conditions;
- Requests that OSP create a child WBS element.

Note that no F&A is charged to fabricated equipment cost objects since the item will ultimately be classified as capital equipment. However, fabrications that extend beyond their estimated completion dates with no significant progress toward completion will be disallowed and the child cost object terminated. All costs will revert to the parent cost object and F&A will be assessed accordingly.

The Property Office website contains additional important information on the request, management and closeout of fabricated equipment cost object.

Disposition of Equipment

Disposition of equipment occurs when the equipment is no longer needed for the sponsored project; in most cases, this occurs as the project nears completion. Disposition activities include reutilization, transferring equipment to other awards or institutions, selling, or returning the equipment to the sponsor. If equipment is broken or obsolete, it may be eligible for disposal as scrap. DLCs must coordinate equipment disposition with the Property Office.

The Property Office is responsible for generating property management reports required by government agencies and sponsors including financial, equipment status, and closeout reports.

Sponsor-owned Equipment and Property

In some situations a sponsor may provide award funds for the purchase of equipment or property but may retain ownership of the asset. Property which is owned by the sponsor may have acquisition and reporting thresholds that differ from MIT's, so the award terms and conditions must be reviewed for specific requirements related to acquisition, use, maintenance, and disposition of equipment.

A sponsor may also furnish equipment to be used in the performance of a sponsored project. Again, the award terms and conditions should be carefully reviewed to ensure compliance with sponsor requirements.

Responsibilities for Sponsor-Funded/Owned Property

MIT is responsible for the control of sponsor-funded/owned property provided under the terms of sponsored project contracts and certain sponsored project grants. The Institute delegates the direct control, maintenance, and accountability of sponsor-funded/owned property used in connection with a contract or grant to the Principal Investigator and his/her DLC.

Institute policies and procedures on control of sponsor-funded/owned property are established by the Property Office to insure compliance with contractual requirements. The Institute delegates oversight of sponsor-funded/owned property to the Property Office.

Property Management

The performance of sponsored projects may require the acquisition of equipment by MIT. The equipment may be purchased by MIT using Institute or DLC funds, or the equipment may be budgeted as a direct cost of the project and paid for with sponsor funds. In some situations the equipment may be donated by third parties or furnished by the sponsor. The requirements associated with the management of equipment and other property acquired by MIT vary depending on the dollar value of the acquisition, the source of funding and the method of acquisition.

Roles and Responsibilities

MIT Property Office

The MIT Property Office (see Appendix or MIT Property Office website link) is responsible for the accounting and asset management for both MIT-owned, sponsor-owned and donated equipment. The MIT Property Office has information on specific procedures, policies, and instructions for acquiring, controlling, shipping, moving, and disposing of sponsor-funded, sponsor-owned and Institute property (including loaned and donated property.) The Property Office conducts a physical inventory of Institute property, including equipment, on a biennial basis. Inventory results must be reconciled to the MIT property system and reported by project to the sponsor.

Departments, Labs and Centers

DLCs are responsible for equipment purchased on their sponsored projects regardless of the equipment is located (i.e., on campus, off-campus or at a subrecipient site). The DLC must ensure that equipment is managed appropriately, and that MIT staff, students, and subrecipients follow approved property procedures.

Federal Agencies

MIT's equipment inventories and property management systems are evaluated and approved by the Defense Contract Audit Agency (DCAA), the Defense Contract Management Agency, and the Office of Naval Research (ONR), MIT's cognizant government agency.



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

- ▶ Property Office
- ▶ Fabricated Equipment Policy
- ▶ MIT Capitalization Policy