University of Maryland Fabricated Equipment Procedure
(Revised November 2021)

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.

Deliverable is an item (e.g., scientific instrument, equipment) created or developed by UMD personnel under a sponsored project intended to be delivered to the sponsor. If a deliverable is fabricated equipment, Facilities & Administrative Costs apply.

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.

- 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.
- When completed, the fabricated asset will not be affixed permanently to a building or structure and will be considered a movable capital asset.
- Is tangible and capable of specific identification and continuous control through tagging and periodic physical inspection.
- It will be owned by UMD when completed.

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.

In-Service Date is the date when the asset is put into service and marks the beginning of the depreciation. In general, this date will start within the period of performance of the sponsored project.

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 complete sponsored project requirements effectively.

UMD's F&A Rate Agreement exempts purchases of equipment, but not specifically component parts required to fabricate equipment, from the total direct cost base when calculating F&A Costs. Component pieces, and other costs necessary for the fabrication of equipment, 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.

To meet the requirements of an F&A exemption under this Procedure, the newly fabricated equipment must be constructed by UMD personnel in a department, lab, institute, center, or an approved off campus location and will be used for the performance of a sponsored project. Approval to fabricate equipment at an off campus location will be contingent on whether that site was included in the initial proposal, or incorporated into the sponsor approved revised budget, as the fabrication site. 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 does not apply 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;
- Design drawings and blueprints;
- Testing costs to confirm proper assembly and functionality of the fabricated equipment;
- Direct Labor costs of non-academic staff (e.g., engineers, technicians, and shop labor) working directly on the fabrication;
- Installation costs for construction of fabricated equipment; and
- Individual items of Capital Equipment that will be incorporated into the Fabricated Equipment

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

- Academic personnel labor (e.g., salaries for faculty, graduate research assistants, postdocs, senior research associates);
- Administrative or clerical support personnel;
- Standard items that are altered or customized to make them usable;
- Components connected 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 for 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].

Inventory Control

The UMD Inventory Control Office creates the fabricated equipment asset and maintains its record 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 create 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, the 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 asset number must be entered in the Pcard transactions log to use the 4348 object code.

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. The attached Fabricated Equipment Form for Departmental Documentation should be used to capture the appropriate information.

Modifications

Subsequent modifications to the fabricated equipment or replacement of individual parts after the original fabrication have been completed do not qualify for an F&A exemption under this policy unless the subsequent modification or replacement itself costs $5,000 or more and extends the useful life of the fabricated equipment by

at least two (2) years. The In-Service Date will not change as a result of any modification(s). Adding individual components to 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 fabricated equipment, including maintaining appropriate financial records and tracking the location and status of equipment.

Exceptions

The Vice President for Research must approve any exceptions to this procedure via the F&A waiver process.