

University of Rochester
Guidelines on Determining the Allocability and Allowability
of Equipment Purchased from Sponsored Program Funds

Effective September 1, 1998, ORPA will no longer review equipment requisitions purchased from Ledger 5 (restricted sponsored program) funds. ORPA's role in requisitions review was to determine the allowability and allocability of such purchases; University Departments and Centers will now assume this responsibility with the assistance of these guidelines. UR-COEUS, the internal Notice of Award conditions and ORPA. This new procedure will alleviate the need for an additional signature in the procurement process and permit Departments to determine allocability and allowability of equipment within the scope of the project.

Note: While these guidelines focus primarily on equipment purchases using federal funding, the overriding principles can be broadly applied to any ledger 5 account.

Reminder: Equipment is defined as any unit item with a life expectancy of at least one year and having an acquisition cost of \$1,000 or more. Shipping, taxes, in-transit insurance and installation charges should be included under this category for new purchases, provided these costs are included on the original purchase order. If an item falls outside this definition (i.e. auxiliary supplies), it is considered "expendable materials and supplies". Equipment rental or lease, for instance, is not included in the capital equipment definition. In addition, repair services are generally not allocable to the equipment subcode.

Fabricated Equipment is defined as special purpose equipment that is to be assembled or fabricated that will result in an article of nonexpendable tangible property having a useful life of at least one year, and total acquisition cost of \$1,000 or more. The fabricated unit consists of items or assemblies of parts that are interconnected and interdependent so as to become a new functional entity for a special purpose.

A. Allocability and Allowability of Equipment Under Federal Regulation

In order to fully understand ANY purchase under sponsored funding, it is necessary to understand the basic premises of OMB Circular A-21, Principles of Determining Costs Applicable to Grants, Contracts, and other Agreements with Educational Institutions. OMB Circular A-21 requires that any expense charged to federal funding be:

1. **Allocable:** The cost can be assigned to the activity on some reasonable basis. For instance, an equipment purchase made in the last months of a project would not be allocable if it could not be justified as essential to the activity. Similarly, a purchase made outside the project period, as defined by the date of the issuance of the purchase order, is not allocable.
2. **Reasonable:** A prudent person would have purchased this item and paid this price.
3. **Consistently Treated:** Like costs must be treated the same in like circumstances, as either direct or indirect costs. For instance, general office equipment is normally charged to Department operating accounts, not to sponsored program accounts, unless budgeted and approved in the proposal budget.

If a cost cannot meet the above criteria, it is not considered allowable. Allowability is further defined below.

Allowable: With respect to purchases made from federal funds, the cost must be eligible for reimbursement by the federal government as defined in OMB Circular A-21. With other sponsors, it is defined as a cost that is permitted under the funding agreement.

OMB Circular A-21 specifically defines the allowability of equipment under federal awards as follows:

1. **Special Purpose Equipment:** Special purpose equipment is equipment that is used primarily for research, medical, scientific or other technical activities. As a rule, only special purpose equipment is funded and allocated to sponsored programs since it can be proven that it is necessary for the programmatic goals of the project.
2. **General Purpose Equipment:** General purpose equipment is not limited to the activities stated above, and includes equipment such as office furniture, printing and copying equipment, pagers, faxes, scanners or word processing equipment. Under OMB Circular A-21, general purpose equipment is unallowable as a direct charge, except where it is used exclusively for the actual conduct of the project or is utilized as special purpose equipment (i.e., a computer that is necessary to perform and document scientific studies). Any general-purpose equipment meeting these criteria and purchased under a sponsored award must be fully justified via a memo to the file.

B. Allocability and Allowability - Specific Guidance

Ideally, all equipment purchases are itemized and approved in the original proposal. Unforeseen equipment purchases are often necessary; therefore Departments should be cognizant of any sponsor restrictions on the purchase of unapproved equipment. Most of our major granting agencies have given universities some latitude in rebudgeting costs, however, sponsor regulations do vary with respect to equipment allowability. Principal Investigators and administrators should keep in mind that most federal sponsors view significant rebudgeting as an indication of a change to the scope of work, and there may be limitations on the amount of funding that can be rebudgeted.

Unless otherwise restricted in the grant document, the following federal granting agencies do not require approval for unbudgeted equipment costs:

- Public Health Service (including NIH)
- National Science Foundation
- Department of Energy
- U.S. department of Agriculture
- Office of Naval Research
- Air Force Office of Scientific Research

The following granting agencies have some restrictions on the purchase of unbudgeted equipment:

- NASA: Sponsor approval is required for unbudgeted scientific equipment costing \$5,000 or more. All general purpose equipment, regardless of cost, requires approval.

- Army Research Office: Sponsor approval is required for unbudgeted equipment costing \$5,000 or more.
- Voluntary Health Agencies: Most voluntary health agencies (American Heart Association, American Cancer Society, etc.) require approval for all unbudgeted equipment or rebudgeting.

Federal and state contracts, on the other hand, normally require approval from the Contracting Officer for equipment not approved in the budget. The approval threshold may vary and the contract terms and conditions should be reviewed.

C. Departmental Responsibilities

The following summarizes the responsibilities of Departments with respect to approval of equipment purchases:

- Departments should determine the allocability and allowability of equipment purchases. Individual grants and contracts should be reviewed to determine if any special conditions or restrictions exist. ORPA should be consulted at any time if questions arise.
- Purchase of equipment that could be also used for general purposes, e.g., computers (unless the purchase has been separately identified in the sponsor approved budget) requires a written justification prepared and signed by the Principal Investigator. This justification should state the technical purpose for which the equipment is being purchased and that the equipment will be used solely for the project(s) that financed the purchase. This justification should be kept in the Department's award file along with a copy of the requisition or purchase order.
- Purchase of scientific equipment normally does not require a written justification by the Principal Investigator, unless: a) it is purchased under an award that requires sponsor approval; b) the award contains a special requirement; or c) exceptional circumstances exist. Letters requesting sponsor approval for unbudgeted equipment must be co-signed by ORPA.
- Equipment justification must be retained by the Department in award-related records and are subject to University retention requirements. Written justification for equipment purchases will be subject to audit by University or sponsor auditors and Departments are required to comply with any audit requirements and/or recommendations. The University's retention requirement for sponsored programs is three (3) years after final payment, unless a longer retention period is dictated by the sponsor.
- Departments must ensure that correct subcodes are used for equipment purchases and that the Principal Investigators (or someone designated by him/her in writing) has approved the purchase. For those Departments that have centralized support, the Department administrative designee must sign all purchases.
- For those Departments involved in equipment fabrications, only components of the fabrication should be allocated to the X2690 subcode. Tools, non-fabrication supplies, labor costs are not allowed under the X2690 subcode. Initial fabrication requests must still be approved by ORPA.

Disallowances or negative findings resulting from non-compliance with the aforementioned Department responsibilities will be the responsibility of the Principal Investigator and Department. Monetary penalties will be assumed by unrestricted Departmental accounts.

D. ORPA Responsibilities

In addition to being available to offer guidance on questions of allowability and allocability, ORPA is responsible for the following:

- Approving and initializing all initial fabrication requests and forwarding fabrication information to Finance and Purchasing Services.
- Cosigning all equipment requests that require sponsor or Contracting Officer approval. Note that institutional (ORPA) approval is required by sponsor policy for any rebudgeting request.

We hope that this new procedure will facilitate the procurement of equipment, and we are confident that Departments will assume the oversight responsibility for these purchases as they have with all other costs allocated to sponsored programs.

Should you have any questions regarding this policy or future equipment purchases, please contact your ORPA research administrator.

ORPA
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