Monitoring Capital Equipment: Best Practices for Research Administrators

# Introduction

## Why Talk About Capital Equipment?

As a recipient of federal funding, the University of Michigan (U-M) is required to demonstrate compliance and financial internal control audit of expenditures charged to federal grants and contracts.

Each year an audit is performed at U-M in accordance with the [Uniform Guidance](https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200?toc=1) (https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200?toc=1) to determine if federally sponsored programs were administered in accordance with applicable laws and regulations.

## Why Talk About Capital Equipment? (continued)

The tracking and management of assets (including capital equipment) has been a financial-related finding in recent audits of the university.
The Challenge: how can we improve communication among those responsible for tracking the equipment and those using and disposing of the equipment to ensure compliance and avoid audit risk?

## Module Overview

This module explores ways the Research Administrator (RA) can assist the Principal Investigator (PI) and Project Team in complying with sponsor requirements and university policy related to capital equipment through regular communication and reporting.
You will learn about:

* Key terms related to sponsored capital equipment;
* The roles and responsibilities of those involved in monitoring sponsored capital equipment;
* Examples of non-compliance in the management of capital equipment, and
* Ways the RA can facilitate compliance.

For information about the procedures and forms used in tracking and disposing of capital equipment, refer to the document [U-M Internal Controls - Overview of Key Processes](https://finance.umich.edu/sites/default/files/2019-02/Capital%20Equipment%20Overview%20of%20Key%20Processes%202.26.19.pdf) (https://finance.umich.edu/sites/default/files/2019-02/Capital%20Equipment%20Overview%20of%20Key%20Processes%202.26.19.pdf).

# Key Terms

## What Is Capital Equipment?

The university defines capital equipment as moveable equipment, fabricated equipment, vehicles, and musical instruments, with an original value of $5,000 or more and a useful life of one year or more.
Capital equipment includes purchased and donated equipment.

To learn about the U-M Policy, refer to [Standard Practice Guide 520.01: Acquisition, Use, and Disposition of Property (Exclusive of Real Estate)](https://spg.umich.edu/policy/520.01) (https://spg.umich.edu/policy/520.01).

For information about donated capital equipment, visit the [Gifts of Capital Assets website](http://finance.umich.edu/finops/accounting/equipment/donated) (http://finance.umich.edu/finops/accounting/equipment/donated).

## Capital Equipment

Examples of what it is and isn’t.

Examples of capital equipment include:

* Microscopes
* Freezers
* Lasers
* High end computer equipment

Examples of non-capital equipment include:

* Office and lab supplies
* Consumables
* Office furniture with a per unit cost of less than $5,000

## Who Owns the Equipment?

Capital equipment purchased with sponsored funds belongs either to the sponsor or to the university.

* Sponsor-owned equipment uses account code 614300.
* University-owned equipment uses account code 614000.

Most sponsors allow the university to hold the title, subject to the conditions set forth by the sponsor in the award.

The equipment does not belong to the PI or the department managing the project, unless stipulated by the funding source.

To learn more, refer to the following resources:

* [Uniform Guidance Section 200.313: Equipment](https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#200.313) (https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200#200.313)
* [NIH Grants Policy Statement 8.3.3.2: Equipment and Supplies](https://grants.nih.gov/grants/policy/nihgps/html5/section_8/8.3.3_property_management_system_standards.htm) (https://grants.nih.gov/grants/policy/nihgps/html5/section\_8/8.3.3\_property\_management\_system\_standards.htm)
* [NSF Proposal and Award Policies and Procedures Guide](https://www.nsf.gov/pubs/policydocs/pappg20_1/nsf20_1.pdf) (Chapter IX.4.D: Property Management Standards) (https://www.nsf.gov/pubs/policydocs/pappg20\_1/nsf20\_1.pdf)

## Capital Equipment Ownership

The owner makes the decisions regarding the equipment. Below are examples of what holding the title to the equipment means to the sponsor and to the university.

When the sponsor retains title, the sponsor:

* Can claim the equipment at any time.
* Decides if the equipment may be transferred or sold.
* May require that U-M transfer the equipment if the PI and/or the Award moves to another institution.
* Is entitled to reimbursement of the cost of the equipment if U-M requests to keep or sell it.

When U-M receives title:

* If the Equipment clause in an award specifically states that U-M has unconditional title, the university has no obligation to the sponsor at the end of the project regarding disposition (sale, transfer, or disposal).

## What Is Fabricated Equipment?

Fabrication is the process of constructing a piece of capital equipment from components.
The completed capital equipment must have an expected useful life of one year or more, and the costs of building the equipment must be in excess of $5,000.

## Setting Up a Fabrication Project/Grant

There are two types of fabrications: sponsored and non-sponsored.

For sponsored fabrications, Sponsored Programs requires a new subproject to be opened under the parent project.

* Sponsored fabrication components should be coded to the appropriate temporary account value: 614330.

For non-sponsored fabrications, Financial Operations recommends a new project/grant be established to track all costs.

* Non-sponsored fabrication components should be coded to the appropriate temporary account value: 614060.

## Completion of the Fabrication

The unit must notify Sponsored Programs or Financial Operations when the fabrication is completed and in use.
The unit must ensure the components are re-accounted from the temporary account code into the proper account code:

* 614300 for sponsored
* 614000 for non-sponsored

The unit must also facilitate the tagging process so that the item can be recorded in the Asset Management (AM) system.

The fabrication should be recorded in the AM system as capital equipment **before** it is disassembled or disposed of (where applicable).

Contacts:

* Contact your Sponsored Programs Coordinator for sponsored fabrications.
* For non-sponsored fabrications, email accountingoperations@umich.edu.

# Roles and Responsibilities

## Principal Investigator

The Principal Investigator has the ultimate responsibility to comply with the terms and conditions of the award and university policy with regard to the physical and financial management of sponsored capital equipment.

Primary responsibilities include:

* Understand the sponsor and university requirements for the management and disposal of equipment.
* Know the current physical location of the equipment.
* Know whom to contact in their unit regarding any changes to the physical location, loss, or damage to the equipment - and promptly notify that person of any change.
* Assist in the completion of physical inventories and reports (U-M and/or sponsor-specific reports, as required).

## Department or Unit

The Department or Unit is the "custodian" of the equipment and responsible for safeguarding assets.

Primary responsibilities include:

* Ensure equipment is charged to the appropriate account code.
* Provide and control physical security for the equipment.
* Update information in the AM system when equipment is moved or transferred.
* Perform physical inventories and reconcile the records in the AM system.
* Periodically review AM reports to ensure accuracy.
* Document and reconcile disposals and transfers.
* Notify appropriate university central offices when there is damage, theft, or other loss.
* Complete the [Annual Unit Internal Control Certification Process](http://www.finance.umich.edu/controls/certprocess) (http://www.finance.umich.edu/controls/certprocess).

## Property Control Office

The Property Control Office is responsible for the university's Asset Management Program.

Primary responsibilities include:

* Track and tag all capital equipment, as well as sponsor-titled equipment regardless of value.
* Clear sponsor funded or owned capital equipment before disposition or moving the equipment into or out of the university.
* Conduct physical inventories with the departments.
* Work with the PI, RA, or other department staff to complete Property Reports required by the sponsor.

Property Control Office contact information:

* Email: property.control@umich.edu
* Phone: 734-764-6251

## Property Disposition Office

Property Disposition is responsible for the disposal of all university property designated as surplus by U-M schools, colleges, and units.

Primary responsibilities include:

* Sell, recycle, or dispose of surplus equipment to the best advantage of U-M. Generally, 90% of proceeds are returned to the unit.
* Determine the fair market value of equipment transferred to the university.
* Establish the fair market value of capital equipment if the sponsor and the university agree to the sale or transfer of the equipment to another institution.

Property Disposition Office contact information:

* Email: property.disposition@umich.edu
* Phone: 734-764-2470

## Financial Operations – Accounting Operations Office

The Financial Operations - Accounting Operations Office is responsible for determining the proper account usage and recording of capital equipment in the AM system.

Primary responsibilities include:

* Review activity in the U-M general ledger, and when appropriate, record capital equipment in the AM system.
* Transfer assets to different departments and complete cost adjustments.
* Verify depreciation and system-generated accounting entries to the general ledger.
* Retire assets based on the satisfactory completion of the Declaration of Surplus form and clearance from Property Disposition and/or Property Control.

Contact Accounting Operations by email at accountingoperations@umich.edu. Refer also to the [Financial Operations – Accounting Operations Equipment website](http://finance.umich.edu/finops/accounting/equipment/equipment) (http://finance.umich.edu/finops/accounting/equipment/equipment).

# Stewardship and Audit Risks

## Stewardship of Assets

According to U-M policy, property acquired and used in support of university activities must be safeguarded and maintained. The two most significant factors leading to asset loss are:

* the assumption of security
* complacency

## What Are the Risks?

Failure to safeguard and monitor capital equipment poses risks of:

* Theft or fraud
* Loss of use / downtime
* Replacement cost
* Inaccurate financial reports
* Misstated Facilities and Administrative (F&A) costs
* Reimbursement to the sponsor
* May affect future funding decisions

## Financial-Related Audit Findings at Universities

Examples of financial-related audit findings from various universities include:

* Equipment purchased on an award but charged to multiple awards with zero equipment budgets.
* Unrelated equipment cost transfers into a sponsored grant.
* The purchase of general purpose equipment without sponsor approval.
* The purchase of special purpose equipment:
	+ without sponsor approval;
	+ prior to the project start without sponsor approval;
	+ near or after the end of the project; or
	+ that did not benefit the award.

For more information, refer to the following documents:

* [Summary of University Audits, Settlements and Investigations Related to Federal Programs](https://collaborate.ncura.edu/HigherLogic/System/DownloadDocumentFile.ashx?DocumentFileKey=f3ef95dc-3593-a9e3-e182-38fff2bd9f65) (https://collaborate.ncura.edu/HigherLogic/System/DownloadDocumentFile.ashx?DocumentFileKey=f3ef95dc-3593-a9e3-e182-38fff2bd9f65).
* [U-M Reports on Federal Awards in Accordance with OMB Uniform Guidance](http://www.finance.umich.edu/finops/reporting/annualreports) (http://www.finance.umich.edu/finops/reporting/annualreports).

## Equipment Tracking and Management - U-M Audit Findings

Accurate physical inventories and asset management records are key to compliance and avoiding risk. Past federal audit findings at U-M include:

* Equipment that was disposed of but was not removed from the records.
* Equipment reported as a disposal had been physically moved to a different location and was still being used.

In response to the audit findings, U-M updated inventory instructions and procedures, and implemented the 2019 Unit Internal Control Certification process. Refer also to the [U-M Report on Federal Awards in Accordance with OMB Uniform Guidance for the Year Ended June 20, 2018](https://finance.umich.edu/sites/default/files/2019-03/FY18%20Uniform%20Guidance%20Report%20FINAL.pdf) (https://finance.umich.edu/sites/default/files/2019-03/FY18%20Uniform%20Guidance%20Report%20FINAL.pdf).

## Common Reasons for Missing Equipment

Sometimes equipment cannot be located during the physical inventory process.
It is critical that units accurately document when equipment under their stewardship is:

* Moved for use off campus
* Moved to a different location in the same U-M unit
* Moved to a different U-M unit
* Transferred to a different institution when the PI has left U-M

# Research Administrator Best Practices for Monitoring Capital Equipment

Next, we'll look at ways the RA can facilitate compliance with regard to monitoring and tracking capital equipment.

## Read and Understand the Award!

Begin by carefully reading the award to understand the requirements related to equipment.

* Determine who holds title to the equipment: the sponsor or the university.
* Understand the requirements for equipment use and disposal.
* Know the reporting requirements.

## Share Information with the PI and Project Team

Sharing information with the Project Team about the sponsor and university requirements for the equipment is another way the RA can facilitate compliance.

For example, inform them about the requirements and procedures for:

* Purchasing capital equipment, including when prior sponsor approval is required.
* Transfer of equipment in/out of the university or between university units.
* How to properly dispose of the equipment.

The RA can also be the communication bridge between the Project Team and those in the unit responsible for tracking the equipment.

## Check In Regularly with the PI and Project Team

Throughout the life of the project, have regular discussions with the PI and Project Team about the current status of capital equipment.

* Ask about any changes regarding the location, disposal, transfer, or purchase of equipment.

Remind the PI and Project Team to communicate any proposed changes regarding the equipment to the appropriate individual or office ***before*** action is taken.

## Understand Asset Management in Your Unit

It is important for the RA to understand their unit's procedures for capital equipment management. Do you have any responsibilities in your unit for capital equipment?

If you don't already know, find out who is responsible for managing the capital equipment inventory process in your unit (e.g., the facilities team). Open a channel of communication.

## Review Project Financials

It is important to regularly review the project financials to verify that capital equipment is charged to the appropriate account.

* Ensure non-capital equipment and supplies are not charged as capital equipment.
* Monitor equipment purchases for allowability and any required sponsor approval.
* Verify equipment costs charged to the project are accurate and benefitting the project.

Equipment account codes and descriptions are available on the [U-M Finance Equipment website](http://finance.umich.edu/finops/accounting/equipment/equipment) (http://finance.umich.edu/finops/accounting/equipment/equipment).

## Use Asset Management Reports to Monitor Capital Equipment

Periodically run reports to monitor the tracking of equipment.

Follow up on any information you may have about the equipment that does not match information in the AM system.

With access to the BusinessObjects Financial data set, you can run U-M Maintained reports using asset management data, including:

* Asset Report by Project/Grant
* Capital Equipment by DeptID, Dept Grp, or VP area

BusinessObjects is the university's supported query and reporting tool for all data in the U-M Data Warehouse. Use the [Online Access Request System](https://its.umich.edu/accounts-access/administrative-access/oars) (https://its.umich.edu/accounts-access/administrative-access/oars) to request access to the Financials Data Warehouse and BusinessObjects.

## Summary: RA Best Practices

* Carefully read the award and understand the sponsor and university requirements for equipment.
* Know the roles and stewardship responsibilities of all parties involved.
* Regularly review financial and physical inventory activity through reporting.
* Communicate often!
* Promptly follow up on any discrepancies or issues.

## Conclusion

Congratulations!

You have completed the *Monitoring Capital Equipment: RA Best Practices* module. A record of your completion will be reflected in My LINC under Completed Registrations.