



OSP Memorandum 12-04 *(Supersedes OSP07-03)*

TO: UAHuntsville Research Community

FROM: Gloria Greene, Director, Sponsored Programs

SUBJECT: **Indirect Cost Recovery Charged to Parts to Fabricate Equipment/Account Codes 7435 and 7436**

DATE: 17 September 2012

The University's policy on full cost recovery imposes a duty on all University administrators and Principal Investigators to perform sponsored projects on a full cost recovery basis. Administrators and Principal Investigators are obligated to ask for and recover indirect costs from all sponsors. Full cost recovery is necessary to support the University's physical and administrative capacity to perform extramural projects. Without full indirect cost recovery, the University is subsidizing the cost of the project for the sponsor.

This policy is intended for instances of original fabrication. Any subsequent modifications to the equipment or replacement of individual parts after the original fabrication do not qualify for F&A rate exemption under this policy, unless the subsequent modification/replacement itself costs \$5,000 or more and extends the useful life of the equipment; or if otherwise approved by the OVPR.

- a. There should be a 1:1 correlation between a single fabrication and a single sponsored project. Only in rare circumstances, and with explicit disclosure to and approval by the sponsors, will the costs of a single fabrication be permitted to be charged to more than one sponsored project.
- b. An original fabrication is expected to be started and completed within a single project period.
- c. Except in extremely rare circumstances, the individual items in a fabrication are expected to be located in the same physical space (room).
- d. The applicability of this policy is intended for instances where a single piece of equipment is created through extensive construction or assemblage, often involving shop services. An instance where components are simply connected together in a system, such as when individual computers and servers are joined to create a network, does not constitute a fabrication.
- e. Request to waive F&A complies with *OSP 81-0X: Indirect Cost Waiver*.

“*Equipment fabrication*” is the building of a unique individual piece of equipment, or scientific instrument by UAH personnel (not a vendor or subcontractor). A fabrication must meet all of the following criteria:

- a. The item has unique specifications and is described in the research proposal or award. Details are specified in a dimensioned engineering drawing. When design changes occur, the engineering drawing should be subsequently updated.
- b. The total cost for acquired materials, supplies, and components must be \$5,000 or greater. All items acquired for a fabrication must be permanently integrated into the resulting discrete item.
- c. The completed fabrication has an estimated useful life of one (1) year or more. (Note: If the fabrication is owned or funded by the federal sponsor, the useful life must be two (2) years or more.)
- d. When completed, the item will not be affixed permanently to a building or structure.
- e. The fabrication results in a unique, stand-alone, tangible item capable of specific identification and continuous control through tagging and periodic physical inventory. Components should be designed to remain at one position in the fabrication; they are not to be removed and replaced throughout the useful life of the fabrication.
- f. It must be completed in ample time to directly benefit the funding project and used for its intended purpose. If it is a contract-deliverable item, it must be completed in time to meet the delivery schedule as outlined in the funding sponsored project.

Definition – Notes for Clarification:

- a. Modifying equipment to achieve a desired effect, researching a technique, or developing a new piece of equipment with an untested design are all processes that **do not** constitute a fabrication.
- b. Simply connecting components into a system, either physically or “virtually,” does not constitute an equipment fabrication, e.g., when individual computers and servers are joined to create a network, or when accessories are added to experimental test beds (e.g. optical tables).
- c. Equipment costing \$5,000 or more that is not permanently integrated into the fabrication, should be purchased and tagged separately as capital equipment. It is not considered part of the fabrication.
- d. Software development (the writing of code) does not constitute an equipment fabrication. Additional information regarding software capitalization is available on Contracts and Grants Accounting Website.
- e. Once completed, subsequent modifications of fabricated equipment do not qualify for an indirect exemption unless the modification meets all of the following criteria:
 - It increases the original capabilities of the item.
 - The modification itself costs \$5,000 or more; and
 - It extends the useful life of the fabricated equipment by at least one year.

Fabricated equipment should be identified during the proposal budget preparation and prior to the acquisition of component parts or services related to the fabrication. In addition to identifying the fabrication in the proposal budget, *Indirect Cost Rate Exception Form OSP2012-001* must be completed and approved by the OVPR.

Costs that should be budgeted and charged to a sponsored account include materials and supplies necessary for the fabrication, as well as any internal or external shop service fees. Although project personnel may participate in the fabrication, their salaries will not be exempt from the F&A rate assessment. Only labor costs that are implicit in the internal or external shop rates will be F&A exempt.

Labor, travel and other costs associated with the services of an outside party in a fabrication should be incorporated in the external shop service fees.

Parts to fabricate equipment incur the normal indirect cost recovery rate unless the Vice President for Research has agreed to cost share the indirect cost. Approval to cost share ICR on materials and supplies, must be obtained from the Vice President for Research prior to proposal submission. If the indirect is **NOT** cost shared, the funds are credited to account code "7436." Account code "7435 is for contracts/grants on which the indirect **WILL BE** cost shared.

Parts to fabricate equipment is only used in a situation in which the parts are being purchased to build a definable, end-result piece of equipment. Each requisition for these parts must have the name of the resulting equipment stated on it, and a completed [Tangible Property Purchase Approval Form](#). Fabricated Equipment, once completed will be tagged and inventoried. Items purchased to restock an inventory or with no immediate, definable equipment fabrication purpose will be charged the full F&A rate.

When the F&A Rate Exemption does not Apply

If a fabricated equipment item will have an aggregate cost of less than \$5,000, the individual costs for all acquisitions should be budgeted and charged to the appropriate account codes. Those account codes will be assessed the F&A rate. In this case, an inventory tag number will not be assigned, as the fabricated item will not be recorded in the asset system.

If the individual costs of a fabrication are charged to 7435 under the presumption that the aggregate cost will reach \$5,000 or more but, ultimately, the actual costs do not, the charges will be transferred off of 7435 to the appropriate account code(s) and F&A will be assessed. The sponsored project or a designated cost sharing account will be responsible for absorbing the F&A assessment on the cumulative charges.

If ownership of the final product is to transfer to the sponsor, the F&A rate exemption does not apply to the individual fabrication costs. In such cases, the costs associated with the fabrication should be classified under the appropriate materials account codes and will be assessed the F&A rate.

Researchers are neither authorized to negotiate reduced indirect cost rates with sponsors, nor to submit proposals that do not include the applicable full indirect cost rate as part of the budget.

When funding flows from the prime sponsor through an intermediary sponsor, as in the case of federal flow-through awards, then the indirect cost rate applicable to the prime sponsor will apply.

Once a decision has been made by the OVPR, a single PDF copy of the signed form will be emailed to the PI and serve as notification of approval/disapproval of the indirect cost waiver request.

Questions regarding F&A (indirect) cost waivers should be directed to your contract administrator or C&G Coordinator.