March 30, 1998

IMPLEMENTATION PLAN -- CHANGING THE DEFINITION OF EQUIPMENT
QUESTIONS AND ANSWERS BASED ON CAMPUS COMMENTS

General

1. What are the key points of the implementation plan?

The basic elements of the implementation plan are summarized as follows. For more detailed guidance or application to specific circumstances, see the questions and answers below or contact the UCOP functional area representative listed at the end of this document.

- Transaction Processing: During FY 1998-99 all purchases and acquisitions will continue to be processed using the same equipment threshold ($500) and coding as in FY 1997-98, except that items of furniture received on or after July 1, 1998, must also be coded as equipment when appropriate. All transactions concerning items received on or after July 1, 1999 will be processed using the new threshold of $1,500.

- Indirect Cost Application: During FY 1998-99 indirect cost charges on extramurally funded projects will continue to be applied using the same equipment threshold ($500) as in FY 1997-98. Indirect cost charges will be applied to items costing less than $1,500 received on or after July 1, 1999.

- Equipment Management: Effective July 1, 1998, it will not be necessary to tag, track, or physically inventory equipment costing less than $1,500. However, the items received during FY 1998-99 meeting the old equipment definition and costing at least $500 but less than $1,500 must be reported to UCOP at the end of FY 1998-99.

- Financial Accounting: The University's financial statements for the year ending June 30, 1999, will reflect the new threshold of $1,500.

Implementation Date:

2. Can all aspects of the implementation be delayed until July 1, 1999?

No. The change has been widely discussed over the past 18 months, and the University management is committed to changing the definition as soon as possible to reduce the administrative burden of tracking low-value equipment.

The transition plan was developed to achieve maximum benefits with minimum cost, effort and disruption.

3. Why can't we implement all aspects of this change on July 1, 1998? Why must we delay implementation for grants and contracts?

As described above, the implementation plan reduces the administrative burden of tracking low-value items as soon as possible, while providing a reasonable and administratively workable phase-in period for sponsored projects.

4. Must all campuses implement the change in the same way at the same time?

Yes. Because of the complex and interrelated requirements of plant accounting, extramural fund accounting, inventory management and proposal budgeting, the implementation plan must be uniform across all campuses. Specific implementation procedures may vary between campuses due to local systems differences; however, wide variations may increase the potential for audit findings in the transition year.

5. For contract and grants, isn't the implementation date of July 1, 1999 for *all* awards as described in the implementation plan contrary to Senior Vice President Kennedy's letter of January 27, 1998?

The implementation plan is somewhat different from the specific exception described by Senior Vice President Kennedy. The purpose of the exception was to provide a reasonable amount of time for sponsored projects to plan for the new threshold; unfortunately, applying the new threshold to all awards made on or after July 1, 1998 would not have allowed sufficient time to budget for the change in pending proposals. Therefore, we have decided to apply the change to *all* sponsored projects beginning July 1, 1999. This will allow more than 15 months for *all* sponsored projects to plan for the change. A uniform date of implementation applied to *all* sponsored projects will greatly reduce the complexity of the implementation, and eliminate the need for campuses to support systems and processes in which different equipment thresholds are in use simultaneously by different projects.

6. What determines the treatment of an item during the transition in FY 1998-99: the date of the purchase order; the date of receipt; or the date of payment?

The date the item is received determines how it will be treated. Furniture costing at least $1,500 received on or after July 1, 1998 must be coded as equipment and inventoried, regardless of when ordered. Likewise, items costing less than $1,500 that are received on or after July 1, 1999 must be coded as supplies and materials, and will be subject to indirect cost if extramurally funded.

Transaction Coding

7. Will campuses need to support a system that will track University-owned items costing at least $500 but less than $1,500 during FY 1998-99?

The implementation plan was designed to require little or no change to existing campus systems regarding these items. There is no need to establish a new object code to identify expenditures for these items. There is no need to physically track these items. The acquisition cost of these items will not be added to plant asset values for FY 1998-99. However, campuses *will* need to report these items to UCOP (see questions 19-23).

8. The implementation plan requires that items costing at least $500 but less than $1,500 continue to be recorded as equipment during FY 1998-99. Does anyone plan to use the data collected as a result of this requirement?

Yes. The information will be used for indirect cost computation and negotiation purposes, in order to calculate the impact of the equipment threshold change on rates and recovery.

In addition, the equipment inventory files are currently used for analyses in which items costing between $500 and $1,500 form a significant part (e.g., workstation equipment, State capital projects, instructional equipment replacement needs). The information collected during FY 1998-99 will provide a final complete year of data for analysis.

Furniture

9. Is it necessary to inventory furniture received before June 30, 1998?

No. Only furniture received on or after July 1, 1998 should be added to the inventory.

10. Will *all* furniture be capitalized and added to inventory?

No. Beginning July 1, 1998, only furniture costing $1,500 or more that is not defined as "system furniture" below will be capitalized and added to the inventory. Furniture items costing at least $500 but less than $1,500 should *not* be added to the inventory in FY 1998-99 or thereafter. (However, as new buildings are constructed the cost of furnishings under $1,500 can still be added to the cost of the building and therefore capitalized, but not added to the inventory.)

11. How is "system furniture" defined?

System Furniture is defined as any one of the following three types of furniture:

(1) **Panel/screen - non-load-bearing:** All free standing screens that provide visual and/or acoustical separations, and are intended to be used to divide space but not used to physically support furniture items.

(2) **Panel supported systems:** Individually connected panels and work surfaces, filing, storage and shelving components and accessories which receive their primary support from the panels and which, when combined form complete workstations

(3) **Modular systems furniture:** Modular furniture made up of independent work surface and storage units with panels used as end panels or space dividers. Includes all modular furniture components that collectively are required to complete a workstation.

12. Why not capitalize and inventory system furniture?

By definition, components of system furniture do not function independently of one another and therefore do not individually qualify as items of equipment, regardless of acquisition cost. Although an assembled workstation might be considered an item of equipment, it would be undesirable to tag and inventory separate workstations, because doing so would negate one of the chief advantages of system furniture – the ability to disassemble and reconfigure components with a minimum of inconvenience. Consequently, individual items of system furniture will not be capitalized and inventoried, although mass purchases of system furniture may be capitalized (e.g. as part of a new building) but not inventoried.

Equipment Management

13. Why will we treat University-owned items costing less than $1,500 like equipment during FY 1998-99?

For indirect cost application purposes, the $500 threshold for the definition of equipment will continue in FY 1998-99. In order to maintain consistency University-wide and to avoid creating a new set of systems and procedures for use in the transition year only, campuses must continue recording items costing at least $500 but less than $1,500 as equipment during FY 1998-99, regardless of fund source. Inventory system options are discussed below in questions 20 & 21.

14. Will University-owned items costing less than $1,500 be tagged in FY 1998-99?

No. It will not be necessary to tag, track, or physically inventory any University-owned items costing less than $1,500 that are received during FY 1998-99. Government-owned and other property requiring special treatment is discussed below (see question 16).

15. We are expecting an ONR audit in FY 1998-99 – how will this affect the audit?

The equipment threshold for the University of California will be $1,500 beginning in FY 1998-99. Records and reports for audit and physical verification purposes should not include any University-owned items below the equipment threshold. Effective July 1, 1998, the University will define equipment as articles of non-expendable tangible personal property having a useful life of more than one year, and an acquisition cost of $1,500 or more per unit. BUS-29 will be reissued to reflect this change as soon as possible.

16. What if the terms of a sponsored project define inventorial equipment to include items costing less than $1,500?

If items costing less than $1,500 purchased as part of a sponsored project are defined as inventorial equipment under the terms of the agreement, the items should be treated as inventorial equipment under the exceptions for inventorial equipment given in BUS-29, Section A, Paragraph VII.A.2.

Campus inventory systems facilitate University compliance with two sets of requirements. One set of custodial obligations pertains to equipment as defined by the University. The University also has custodial obligations for other property items, independent of the University's definition of equipment. For example, the University is often contractually required to track and report property owned or loaned by an outside entity, regardless of the item's cost. Campuses must meet both sets of obligations. This Q&A document is primarily concerned with the impact of the threshold change on the treatment of equipment. Other property items requiring special treatment are described in BUS-29.

17. Why do the guidelines state that for departmental purposes the new threshold will not take effect until July 1, 1999?

During FY 1998-99, departments will continue to purchase equipment items based on the same $500 threshold used in prior years, whether the funding source is extramural or not. The changes that will occur during fiscal year 1998-99 will be in the manner Equipment Management maintains and reports the data, and how plant assets will be reported in the financial statements for FY 1998-99. Effective July 1, 1999, all departments and transactions will use the $1,500 threshold.

18. During FY 1998-99, items meeting the old equipment threshold of $500 but costing less than $1,500 will be treated as equipment for overhead purposes. Must these items also be individually added to the inventory or other data file?

Yes. For inventory database options, see questions 20 & 21 below.

<u>Reporting Inventory to UCOP</u>

19. When is the equipment inventory file due?

The EFA100 file is always due at UCOP on the 20th working day of July. The file for FY 1997-98 will be due July 29, 1998.

20. When do reporting/inventory procedures for items below the new dollar threshold of $1,500 take effect?

Effective July 1, 1998, campuses may discontinue tracking room number, utilization, condition and location of items below the $1,500 threshold, and exclude them from departmental inventory reports, *provided* these items are retained electronically in your local computer system for FY 1998-99 reporting to UCOP. While some campuses may find it more convenient to retain below-$1,500 items on the inventory until the end of FY 1998-99, others may prefer to remove them to a separate file for later reporting (see options discussed in the response to question 21 below). Technically, campuses should wait until the FY 1997-98 files have been approved by Carla Raffetto, UCOP Information Management, before these items are "removed", but certain circumstances (e.g., an ONR audit) may make earlier removal advantageous to the campus. Please consult with Carla if you feel your campus has such a need.

21. During FY 1998-99, how do we cease tracking items costing less than $1,500 and still record and electronically report these items to UCOP?

The process employed to accomplish this is left to the discretion of the campus. However, here are some suggestions:

- Block the items from entry into the equipment inventory on or after July 1, 1998, but retain in a separate electronic format for later reporting to UCOP; or
- Process the items into the equipment inventory initially, then transfer the information to a separate database as each item is acquired; or

- Process the items into the equipment inventory, but use acquisition value as a filter criterion to exclude the items from tracking and reporting for all purposes except FY 1998-99 year-end reporting to UCOP.

Whichever method the campus selects must be coordinated with campus Plant Accounting to ensure consistent financial reporting to UCOP at the end of FY 1998-99 (See question 33).

22. What EFA files must be provided to UCOP at the end of FY1998-99, and when are they due?

The FY 1998-99 EFA files are due July 29, 1999. At that time, the campuses must submit two EFA inventory files as follows:

(1) The standard EFA100 file, which should include all the items on inventory received by the campus as of June 30, 1999 with an acquisition value of $1,500 and greater *only.*

AND

(2) A one-time EFA101 file, which should include all the items received by the campus as of June 30, 1999 with an acquisition value of at least $500 but less than $1,500 *only.* Any items coded as equipment and received during FY 1998-99 with an acquisition value of at least $500 but less than $1,500 must be included, whether processed through equipment inventory or not. The layout for this file should be exactly the same as the standard EFA100 file; however, detailed specifications will be transmitted to the campus Information Systems and Equipment Management offices by December 1998.

23. When can University-owned items with an acquisition value less than $1,500 *really* be purged from our campus inventory records?

All University-owned items with an acquisition value less than $1,500 may be fully purged from local campus systems after all FY 1998-99 EFA processing at UCOP is complete. Campuses should receive approval from Carla Raffetto by September 1999.

Contracts and Grants

24. How should proposal budgets be prepared?

The proposal budget should be prepared to reflect the current equipment threshold of $500 through June 30, 1999 and the new threshold of $1,500 effective July 1, 1999 and thereafter. Proposal budgets for items to be received before July 1, 1999 will include any item costing more than $500 with a useful life of more than one year in the equipment portion of the budget and will exclude such items from the MTDC base. For items to be received July 1, 1999 and thereafter, items costing $1,500 or more will be included in the equipment portion of the budget and will be excluded from the MTDC base, while items costing less than $1,500 will be included in the materials and supplies budget category and included within the MTDC base.

25. What if the sponsor defines equipment using a lower threshold than the University, and takes title to equipment so defined? At what level will indirect costs be applied? How should these items be treated for inventory purposes?

Absent a special award condition or exception approval to the contrary, indirect costs would be assessed on items below the $1,500 threshold. The items should be treated as inventorial equipment. See the response to question 16 above.

26. What will happen under State agreements?

UCOP Research Administration and Materiel Management will attempt to modify current State master agreements to reflect the new University definition of equipment. Further, we will attempt to secure an advisory to State agencies from the Division of Finance that the University equipment threshold has been raised to $1,500, and that State agency agreements should be administered and new awards made consistent with this new definition. If such efforts are unsuccessful, purchases under State awards made after July 1, 1999 may constitute items requiring special treatment if they do not conform to the University's new equipment definition [see question 16 above]. While we would hope to avoid the existence of "sponsor-owned supply" items as a special property category, such items would be included in the MTDC base if received after July 1, 1999.

27. Can general office equipment now be purchased with federal funds, assuming that the item costs less than $1,500?

Under ordinary circumstances, no. OMB Circular A-21 places restrictions on purchases of both general office equipment and general office supplies as direct charges. Whether or not an item is classified as equipment, it can be direct charged to a sponsored project only if it is necessary and will be used specifically for that project.

Under unusual circumstances, items which would normally be considered general office supplies or general office equipment are necessary for the operation of a sponsored project. In such circumstances it is recommended that these items be specifically identified in the proposal budget, that the rationale for such items be provided, and that the budget documentation be retained so that it is clear to auditors that both the sponsor and the University were aware of the planned expenditure.

Financial Accounting Issues

28. What financial accounting changes will occur in FY 1998-99?

Two financial accounting changes will occur in FY 1998-99 as a result of the new definition of equipment. First, furniture other than system furniture with an acquisition cost of $1,500 or more will recorded as equipment and capitalized if received on or after July 1, 1998. (Mass purchases of system furniture may be capitalized as part of a new building, but the system furniture itself will not be inventoried). Second, the plant asset values reported in the financial statements for the year ending June 30, 1999 will reflect the new equipment threshold.

29. What financial accounting changes will occur in FY 1999-2000?

University-owned items received on or after July 1, 1999 will be recorded as equipment and capitalized only if the acquisition cost is at least $1,500. Items costing less than $1,500 will not be recorded as equipment and will not be capitalized. Since this will affect transactional processing throughout the University, campuses should develop a plan to prepare departments for this change.

30. To record equipment costing at least $500 but less than $1,500 during FY 1998-99 should the campus use sub 3 (supplies and expense) or sub 4 (equipment)?

For FY 1998-99, the campus should use sub 4 and code these purchases as equipment.

31. What object code should be used to capitalize furniture?

We recommend using object code 9950 to record capitalizable furniture.

32. How do we determine the beginning date for recording inventorial equipment and furniture?

For cutoff purposes, code the equipment and furniture based on the date the University will receive the property. Therefore in June 1998, code furniture costing at least $1,500 as a capital purchase if the item will be received on or after July 1, 1998; and in June 1999, do not code equipment under $1,500 if the item will be received on or after July 1, 1999.

33. How do we record the reduction in inventory value for FY 1998-99?

Beginning FY 1998-99, items below the $1,500 threshold that were formerly considered capital equipment will no longer be considered capital equipment. The value of these items received *prior to July 1, 1998* will be recorded in the campus general ledger as a reduction of Investment in Plant for the year ending June 30, 1999. The entry will be as follows:

Dr. 101990-01999 Investment in Plant
Cr. 1018XX-XXXXX Equipment

This amount will be reported as a separate line item in Exhibit E, page 3, and in the Statement of Changes in Fund Balances for FY 1998-99. *The additions to Investment in Plant for FY 1998-99 should exclude the value of items below the $1,500 threshold that were received during FY 1998-99.*

Cost Accounting Issues

34. How and when will indirect cost rate agreements be revised to reflect the equipment threshold change?

For campuses that do not have predetermined rates established for periods beyond FY 1997-98, the next negotiated rate agreement will reflect the new equipment definition. For campuses that already have predetermined rates established for periods beyond FY 1997-98, our goal is to use the established rates in conjunction with the new equipment threshold, and to revise the in-place rate agreements only for the purpose of applying the new equipment definition effective July 1, 1999.

The change will be discussed with the Division of Cost Allocation, U.S. Health and Human Services. The strategy for this discussion will be developed by UCOP Costing Policy & Analysis in consultation with campuses.

35. How and when will Cost Accounting Standards Disclosure Statements be revised to reflect the equipment threshold change?

An update to the Disclosure Statements will be required, based in part on the outcome of indirect cost negotiations referenced in question 34 above. The strategy for updating the Disclosure Statements will be developed by UCOP Costing Policy & Analysis in consultation with campuses.

Further Information

36. If I have additional questions, whom should I contact?

Please contact the appropriate UCOP functional representative listed below:

David Haskins, Materiel Management, (510) 987-0470, david.haskins@ucop.edu
Barbara Lester, Corporate Accounting, (510) 987-0895, barbara.lester@ucop.edu
David Mears, Research Administration, (510) 987-9838, david.mears@ucop.edu
Jorge Ohy, Costing Policy & Analysis, (510) 987-9842, jorge.ohy@ucop.edu
Carla Raffetto, Information Management, (510) 987-0932, carla.raffetto@ucop.edu