The purpose of this circular is to advise Department personnel and Provider Agencies of policies and procedures to be followed in regard to Equipment.

I. **SCOPE**

This policy circular applies to all Provider Agencies.

II. **DEFINITIONS**

In addition to defined terms included in the Glossary of the Manual, the following terms, when capitalized, shall have meanings as stated:

**Replacement Equipment** means property acquired with Department funds to take the place of other Equipment purchased with Department funds. Replacement Equipment must serve the same function as the Equipment replaced and must be of the same nature or character, although not necessarily the same model, grade or quality.

**Trade-In** means the difference between the amount that would have been paid for Replacement Equipment without a trade-in and the amount paid with the trade-in. The term refers to the actual difference, not necessarily the trade-in value shown on an invoice.

III. **POLICY AND PROCEDURES**

A. **Purchase of Equipment**

Department funding of Equipment is allowable, if prior approval is granted by the Department and is in accordance with the July 1986 Contract Reimbursement Manual, Section 2.3, Procurement Standards.
**B. Department Interest in Equipment**

Title to all Equipment purchased in whole or in part under a Contract is held by the Provider Agency. The State, however, maintains an equitable interest in all such Equipment.

1. New Equipment

   When the Acquisition Cost of an item of Equipment is contained in the Annex B: Contract Budget, the State's percentage of interest in the Equipment is the same percentage as the State share of the Contract Total Cost.

2. Replacement Equipment

   The State's percentage of interest in Replacement Equipment is calculated as follows:

   a. Step 1. In accordance with III.B.1 above, determine the State's percentage of interest in the original Equipment which is being replaced.

   b. Step 2. Determine the percentage of the Replacement Equipment's cost that was covered by Trade-In or sale proceeds from the original Equipment which is being replaced.

   c. Step 3. Multiply the Step 1 percentage by the Step 2 percentage.

   d. Step 4. If an additional outlay for the Replacement Equipment is charged to the Contract, calculate the State's percentage of that additional outlay in accordance with the procedures explained in III.B.1 above. Add the resulting percentage to that derived in Step 3.

3. For items of Equipment having an Acquisition Cost of $5,000 or more, all of which was paid by Department funds, the Department has the right to require transfer of the Equipment (including title) to the State or to an eligible non-State party named by the Department. Such transfer may occur at any time.

**C. Use of Equipment**

The following policies govern the use of Equipment purchased with Department funds:
1. Equipment may be used by the Provider Agency in the project or program for which it was acquired as long as needed, whether or not the project or program continues to be supported by federal or Department funds.

2. When no longer needed for the original project or program, the Provider Agency, with approval of the Department, may use the Equipment in other projects or programs currently or previously sponsored by the federal or State government, with first preference being given to those administered by the Department.

3. If Equipment is being used less than full time in the project or program for which it was originally acquired, the Provider Agency must make it available for use in other projects or programs currently or previously sponsored by the federal or State government, provided such other use will not interfere with the work on the original project or program. First preference for such other use shall be given to other projects or programs administered by the Department.

D. Equipment Replacement

1. In cases where Equipment wears out or becomes obsolete, Replacement Equipment may become necessary.

2. Replacement Equipment is subject to the requirements of this circular and to all other requirements applicable to original Equipment, unless the State's percentage of interest in the original Equipment was ten percent or less, or the product of that percentage of interest multiplied by the amount received for Trade-In or sale is $500 or less.

3. Replacement Equipment may be acquired through Trade-In or sale of the original Equipment and application of the Trade-In or sale proceeds to the Acquisition Cost of the Replacement Equipment. In either case, the transaction must be one which a prudent person would make in like circumstances.

4. The Provider Agency has the option of supplementing the Trade-In or sale proceeds of the original Equipment with funds from another funding source. In such cases, the State will maintain an interest in only that portion of the Acquisition Cost of the Replacement Equipment paid with Department funds (Trade-In or sale proceeds included).
E. Disposition of Unneeded Equipment

1. Prior written approval of the Department is required for the disposition of Equipment in which the Department has an equitable interest and which is no longer needed by the Provider Agency.

2. The Department will determine if it has any further need for the Equipment. At the Department's discretion, this may be done by physical inspection of the Equipment.

3. In cases where the Department has further need for the Equipment, the Department will ensure that the Equipment is placed in an appropriate program and will carry out all necessary transfer proceedings, including transfer of title. The Provider Agency will be entitled to be paid an amount computed by multiplying the Fair Market Value of the Equipment by the non-State percentage of interest in the Equipment.

4. In cases where the Department has no further need for the Equipment, disposition of the Equipment will be made as follows:
   
a. Equipment with an Acquisition Cost of Less than $5000 -

   The Equipment may be retained, sold or otherwise disposed of by the Provider Agency, with no further obligation to the Department.

b. Equipment with an Acquisition Cost of $5000 or More -

   The Equipment may be retained or sold by the Provider Agency, and the Department shall have the right to an amount calculated by multiplying the Fair Market Value or the proceeds from sale by the State's percentage of interest in the Equipment. If the Equipment is sold, $500 or ten percent of the total sale proceeds, whichever is greater, may be retained by the Provider Agency for selling and handling expenses. If the Contract under which the Equipment was acquired is still receiving funds from the Department and if the Department approves, the net amount due to the State may be used for allowable costs of the Contract. Otherwise, the remainder of the proceeds will be transferred to the Department within ten Days of closing the sale.
F.  Equipment Management

1. Asset records must be maintained for all Equipment purchased with Department funds. The minimum requirements for such records are outlined below:

   a. Date Acquired: the day, month and year each piece or group of like pieces of Equipment was received at the Provider Agency.

   b. Contract Information: the identification number of the Contract under which the Provider Agency acquired the Equipment.

   c. Quantity: the number of like pieces of Equipment purchased.

   d. Description: a brief description of the Equipment. This includes the manufacturer's model and serial numbers, if any, or an identification number assigned by the Provider Agency. A label bearing the serial or other identification number must be affixed to the piece of Equipment.

   e. Acquisition Cost: the actual unit cost of the Equipment.

   f. State's Interest: the percentage of the Equipment paid with Department funds.

   g. Vendor: the name of the vendor from which the Equipment was purchased.

   h. Invoice Number: the number of the invoice that accompanied each piece of Equipment from the vendor.

   i. Payment: the number, date and amount of the check(s) used to pay for the Equipment.

   j. Physical Inventory Information: the date of the last physical inventory. The location, use, and condition of each piece of Equipment as of the last physical inventory must also be noted.

   k. Date and Method of Disposal: if applicable, the date the Equipment was disposed of and the method of disposal (e.g., transferred, sold, scrapped, stolen).

   l. Proceeds from Disposal: the proceeds, if any, from the disposal of Equipment.
2. A physical inventory of Equipment must be taken and the results reconciled with the asset records at least once every two years to verify the existence, current utilization, and continued need for the Equipment. With Department approval, statistical sampling procedures may be used. Any difference between quantities determined by physical inspection and those shown in the asset records must be investigated to determine the reason for the differences.

3. A control system must be in effect to ensure adequate safeguards to prevent loss, damage or theft of Equipment. Any loss, damage, or theft must be investigated and fully documented.

4. Adequate maintenance procedures must be implemented to keep the Equipment in good condition.

5. Where Equipment is to be sold and the Department has an interest in the Equipment, selling procedures must be established which will provide for competition and result in the highest possible return.

6. The Provider Agency must follow sound and prudent management practices by having adequate insurance to protect itself against loss. It is the responsibility of the Provider Agency to maintain reasonable and adequate insurance for Equipment and other assets through the purchase of insurance or the use of a funded self-insurance program.

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