



# **CWIP 2016 Annual Training Real Property Western Region**

June 13, 2016



## **CWIP Course Overview**

This course introduces the main requirements of the Construction Work In Progress (CWIP) process. The course provides an overview of the CWIP process, information on the individual steps of the process, and responsibilities of Project Managers, CWIP Activity Managers, Line Offices, Property Custodians, as well as Finance and Budget.

# Course Objectives



**NOAA**

NATIONAL OCEANIC AND  
ATMOSPHERIC ADMINISTRATION  
UNITED STATES DEPARTMENT OF COMMERCE



## CWIP Course Objectives

By the end of this course, you will be able to:

- Describe the CWIP process and its purpose
- Describe the workflow processes related to Project Managers
- Describe the workflow processes related to Activity Managers
- Understand the financial impact and how Finance plays a critical role in all CWIP projects
- Understand the role of Real Property Management Division and
- Identify the basic CWIP requirements for the Property Custodian

# Agenda

Chapters	Duration
Welcome	15 Minutes
Course Information	15 Minutes
Introduction CWIP	30 Minutes
Phase 1 : Project Planning	30 Minutes
Phase 2: Determination	30 Minutes
Phase 3: Reconciliation/Documentation/Construction	30 Minutes
Phase 4: Capitalization	30 Minutes
Phase 5: Post Capitalization	30 Minutes
Personal Property	15 Minutes
Challenges & Changes to Policy	15 Minutes
Resources	15 Minutes
Evaluation of Learning	15 Minutes
Course Summary & Exam	30 Minutes

# Ground Rules and Expectations

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Sign the attendance sheet



Share your knowledge, experience and ideas



Feel free to ask questions



Use the “Parking Lot” to revisit discussion topics



Be respectful of other participants



Give helpful feedback



Keep us on schedule with timely returns from breaks



Turn off your cell phones and refrain from checking email

# Introductions

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**Please introduce yourself, providing the following information:**

- Name
- Agency or Organization
- Description of current position
- Fun fact about yourself



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# **Introduction to CWIP**

# Chapter Overview

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## Introduction to CWIP Overview

This chapter provides an introduction to the main functions and features of the CWIP process. It also explains the roles of each individual assigned to a CWIP project.

## Introduction to CWIP Objectives

By the end of this chapter, you will be able to:

- Explain the purpose and importance of CWIP
- Understand the 3 major asset groups
- Describe when we begin tracking CWIP
- Understand who is responsible for tracking CWIP costs
- Explain which activities are considered CWIP
- Define when a project is complete

# Introduction to CWIP

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**What is CWIP?** CWIP is a temporary holding account used to track costs during the design and construction of Property, Plant and Equipment (PP&E) as part of NOAA's financial statements. The costs remain in the CWIP account until the PP&E has been constructively delivered and accepted by NOAA. CWIP is an extension of real and personal accountable property and CWIP issues and costs are governed by the policy for general PP&E.

- Costs remain in the CWIP account until the PP & E has been constructively delivered and accepted by NOAA
- When an item is placed in service, accruals are required for all remaining undelivered order amounts. Accruals are liabilities for goods or services that have not been paid, invoiced, or formally agreed with the supplier.
- After accruals are processed, all of the remaining CWIP costs should be transferred to the appropriate PP&E asset account and depreciated.

# Introduction to CWIP requirements

## **IMPORTANT: Requirements for Compliance**

NOAA's CWIP balance is a focal point of the annual financial statements audit  
The Department of Commerce will fail the annual Chief Financial Officer's financial audit if NOAA's CWIP balances are not fairly stated

In order to be considered a CWIP activity, a construction project must meet all of the following four criteria for capitalization:

1. Have an aggregate acquisition cost of \$200K or more, and
2. Have an estimated service life of two years or more, and
3. Provide a long-term future economic benefit to the NOAA organization which maintains or obtains control, and
4. Is not intended for sale in the ordinary course of operations

# Types of Property

Type of Property	Description
Real Property	Construction or significant improvement of a facility
Personal Property	Acquisition, development, construction or installation of equipment or asset which is not real property, or a significant improvement or modification to the original asset
Internal Use Software	Development or modification of software which will be used internally

# Roles within CWIP projects

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## Line Office CFO and NOAA CAO:

- Ensure staff complete mandatory training and adheres to the instructions
- Ensure a CWIP Activity Manager and a CWIP Project Manager are appointed for all CWIP projects
- Review/approve/distribute monthly reconciliations
- Review/certify NF 37-6 (Report of Property Constructed) before sending them to Finance and the appropriate Property Office

## PPMD Budget Officer: (provide budgetary support)

- Inform Project Engineer/Project Manager of receipt of BOP authority
- Provide BOP Worksheet to Project Engineer/Project Manager
- Request CWIP Activity Manager establish CWIP Project Codes
- Review all obligating documents for funds availability and return to Project Engineer/Project Manager for authorizing signatures and distribution

# Roles within CWIP projects

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## Line Office Headquarters:

- Ensure all CWIP requirements are met before spending funds
- Ensure compliance with all CWIP procedures
- Provide Commerce Business System (CBS) depreciation codes to the CWIP Activity Manager at the substantial completion/BOD of the project
- Ensure the CWIP Critical Element language is added into all CWIP Activity Manager/Project Manager performance plans
- Provide guidance to the LO/SO to determine whether an activity will result in CWIP activity
- Ensure the accuracy of the CWIP costs included for capitalization in the property system

## PPMD Project Engineer and/or Project Manager: (provide construction mgmt. support)

- Complete and provide CWIP Determination Letter to CWIP Activity Manager for all construction-related projects. If bulk purchase, provide CWIP Determination to CWIP Activity Manager.
- Complete and provide BOP Worksheet to PPMD Budget Officer
- Provide revised estimated schedule dates of Design Start, Construction Completion and BOD Dates to the CWIP Activity Manager
- Submit all obligating documents to PPMD CWIP Activity Manager prior to obtaining authorizations

# Roles within CWIP projects

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PPMD CWIP Activity Manager: (provide CWIP project mgmt., ensure PPMD compliance with CWIP Policy and Procedures Manual)

- Ensure compliance with CWIP policy and procedures
- Maintain CWIP documentation files
- Prepare and submit CWIP Project Code Request form to Finance
- Provide CWIP Project List Form to Budget
- Prepare and update a CWIP project spreadsheet
- Review all obligating documents for CWIP compliance, make needed corrections and submit to PPMD Budget Officer for funds authorization
- Send revised estimated schedule dates of Design Start, Construction Completion and BOD dates to Budget
- On an ongoing basis, maintain CWIP file assuring completeness and accuracy
- Submit annual costs adjustments (SLT) to record “incidental and administrative costs” for each CWIP project
- Conduct required quarterly CWIP reconciliations between the CWIP documentation files and the CA500D Report and submit to CMFD
- Upon receipt of a BOD letter, audit the CWIP file and make needed corrections
- Obtain CBS Depreciation Organization, Project and Task Codes from the LO
- Submit NF37-6 (Report of Property Constructed) to the FSPD in the quarter in which a CWIP project has been accepted, delivered or reached BOD and update when appropriate
- Transfer the CWIP documentation file to the Real Property Management Division when the NF37-6 is submitted to the FSPD
- Upon final payment of all CWIP obligating documents to a CWIP project, submit an amended NF37-6 to FSPD to capitalize the full costs of asset

# Roles within CWIP projects

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**Budget Execution Division:** (provide CWIP Policy, CWIP project listing)

- Issue CWIP Policy and Procedures manual
- Upon receipt of CWIP Project Listing Form from the PPMD CWIP Activity Manager, establish CWIP Project number and inform the PPMD CWIP Activity Manager of availability
- Provide quarterly CWIP Activity Listing to PPMD CWIP Activity Manager and update as needed

**Corporate Financial Management Division:** (provide support for CWIP Project Code establishment and ensure CWIP reconciliations are submitted to FSPD)

- Upon receipt of CWIP Project Code Request Form from PPMD CWIP Activity Manager, review and submit for establishment
- Maintain checklist spreadsheet ensuring all CWIP project codes are properly accounted for
- Review quarterly CWIP reconciliations from PPMD Activity Manager and submit to FSPD by established due date
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# Roles within CWIP projects

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Financial Systems and Policy Division: (maintain CA500D Report system; ensure CWIP costs (assets) are valid and posted to the general ledger)

- Issue, interpret, and monitor the CWIP Policy and Procedures Manual
- Review and approve NF37-6 for sufficient uncapitalized costs for valid and current CWIP Project Code
- Complete CBS entry form for posting capitalized CWIP amounts to CA500D Report
- Adjust NOAA general ledger to reflect amounts taken out of CWIP, at completion of CWIP activity , and transfer into appropriate general ledger for Personal Property, Real Property and Software
- Review and monitor quarterly CWIP reconciliations

# CWIP Responsibilities

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## **How do we track CWIP costs and what activities are considered as CWIP?**

Unique accounting codes will be established for each active CWIP project for tracking CWIP costs. CWIP costs to be considered for capitalization are: Capital labor costs for design and engineering, A/E contract design costs, duplication costs of 100% design drawings, construction contract costs, “incidental and administrative” costs, legal and recording fees and damage claims, fair value of facilities and equipment “transferred” to NOAA by another Federal Agency, material amounts of interest costs paid, demolition costs to prepare a site for construction, etc. All CWIP obligations and expenditures will be tracked on a spreadsheet that is created and maintained by the CWIP Activity Manager.

# CWIP Responsibilities

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## **When is a CWIP project completed?**

A project will be recorded as CWIP until NOAA has established BOD and/or substantial completion. When this is reached, the constructed asset will be transferred from CWIP to general PP&E within the quarter BOD is reached. The CWIP Activity Manager initiates the asset transfer by submitting an NF37-6. Only those CWIP items that have been paid will be recommended for capitalization. As additional payments are made, a revised NF37-6 will be submitted. The final NF37-6 is submitted once all project obligations are paid.

## **CWIP Training Requirements**

Project and Activity Managers - annually

Newly appointed Project and Activity Managers – within 1 month of appointment to CWIP role

The LO/SO must ensure compliance with the annual CWIP training requirements

# Contacts

## **OCAO's Real Property Facilities Logistics Office**

### Real Property Management Division (RPMD)

**Francesca Ryan, Director** – [Francesca.Ryan@noaa.gov](mailto:Francesca.Ryan@noaa.gov) 301-713-0937, x103

Lisa Williams – [Lisa.Williams@noaa.gov](mailto:Lisa.Williams@noaa.gov) 301-713-0937, x104

### Project Planning and Management Division (PPMD)

**Chien Le, Director** – [Chien.V.Le@noaa.gov](mailto:Chien.V.Le@noaa.gov) 301-713-0853

Elizabeth Whitsel – [Elizabeth.Whitsel@noaa.gov](mailto:Elizabeth.Whitsel@noaa.gov) 301-713-9810

### Personal Property Management Branch (PPMB)

**Kenneth Morrow, Chief** -- [Kenneth.Morrow@noaa.gov](mailto:Kenneth.Morrow@noaa.gov) 301-713-0804, x122

Katina Williams – [Katina.Williams@noaa.gov](mailto:Katina.Williams@noaa.gov) 301-713-3530, x128

## **OCFO's Finance Office**

### Financial Statements Branch (FSB)

**Mark P. Miller, Chief** – [Mark.P.Miller@noaa.gov](mailto:Mark.P.Miller@noaa.gov) 301-444-2704

Jones Harbor – [Jones.Harbor@noaa.gov](mailto:Jones.Harbor@noaa.gov) 301-444-2133

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# Federal Law and Regulations

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Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the following objectives will be achieved:

- Effectiveness and efficiency of operations,
- Reliability of reporting for internal and external use, and
- Compliance with applicable laws and regulations.

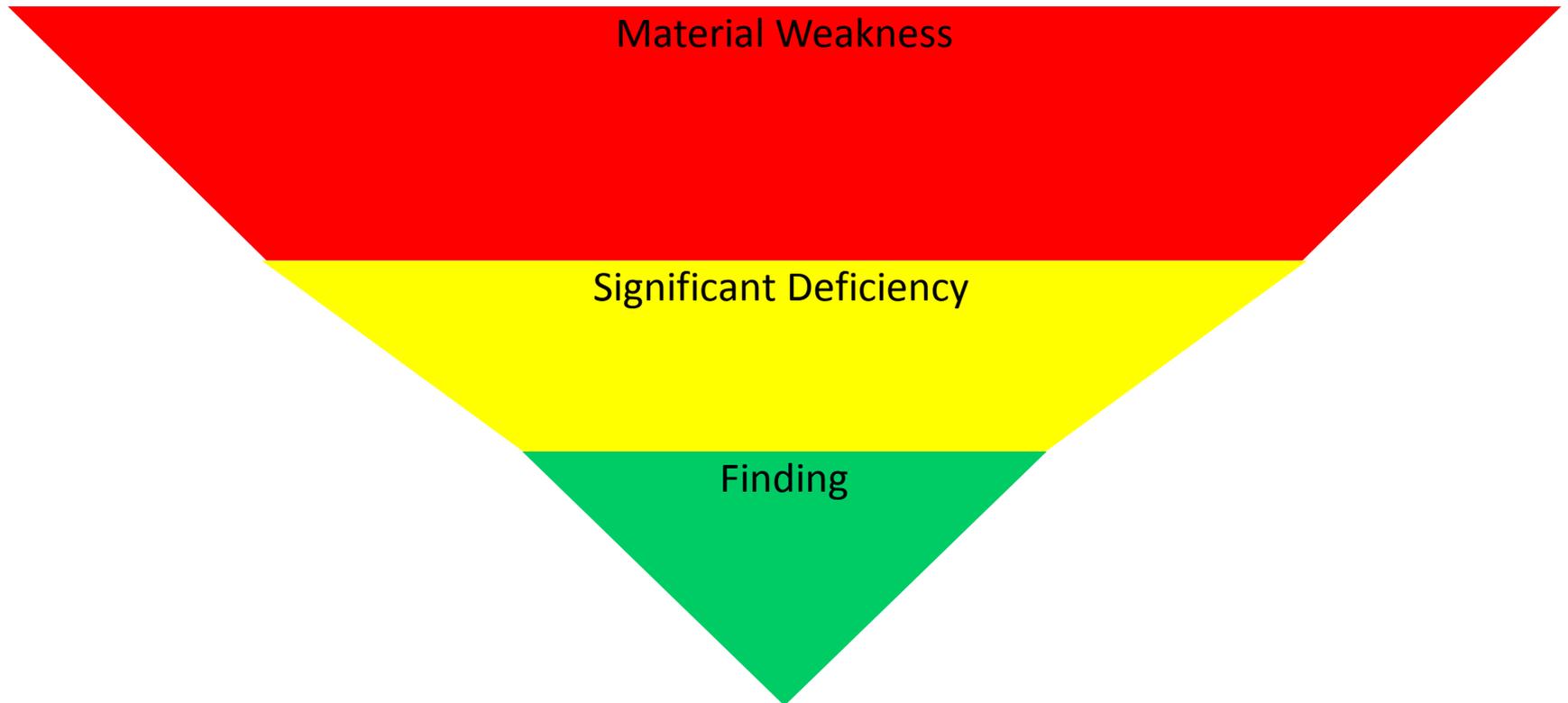
\* *GAO Green Book (GAO-14-704G Federal Internal Control Standards)*

# Federal Laws and Regulations

- A **deficiency** in internal control exists when the design or operation of a control does not allow management or employees, in the **normal course** of performing their assigned functions, to **prevent**, or **detect** and **correct**, misstatements on a **timely basis**.
- A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a **reasonable possibility** that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

*\*Independent Auditors' Report for the Department of Commerce, FY2014*

# Federal Laws and Regulations cont.



\*Finding = Notification of Finding and Recommendation (NFR); also may be referred to as Management Letter Comment (MLC)

# Summary of Findings

## Overall DOC:

- Significant deficiency for Information technology (IT) access, configuration management and segregation of duties controls.
- Significant deficiency for Accounting for Economic Development Administration (EDA) accrued grants.

# Summary of Findings cont.

- NOAA had 21 NFRs; 11 NFRs were property related and are listed below:
  - NOAA inappropriately transferred costs from completed PP&E to expense instead of recognizing the assets in CWIP (NFR 2014-2)
  - NOAA inappropriately capitalized operational training costs which resulted in the capitalization of an asset below the established threshold of \$200k (NFR 2014-3)
  - NOAA inappropriately applied 1% salvage value to satellite assets when such assets cannot be reused or resold (NFR 2014-4)
  - Certain JPSS (satellite CWIP activity), such as “Education and Public Outreach”, should be expensed (NFR 2014-7)
  - NOAA uses an allocation ration to determine indirect costs, but the allocation methodology needs to be analyzed for GAAP compliance and was not consistently implemented (NFR 2014-8)
  - Lack of Real Property Inventory Certification (NFR 2014-11)
  - NOAA did not remove 17 assets which had been reported as excessed by the Line Office from the accounting records (FRPM) (NFR 2014-15)
  - Two Line Offices did not appropriately conduct a personal property physical inventory certification (NFR 2014-16)
  - Testing of CWIP reconciliations revealed that a \$220,000 difference in the reconciliation had not been reconciled to the activity manager’s records (NFR 2014-17)
  - GOES R (satellite CWIP activity) WBS nomenclature lacks sufficient detail to explain the underlying goods and services to make a determination of whether such costs should be capitalized or expensed (NFR 2014-19)
  - Costs incurred that should have been capitalized in CWIP were expensed instead (NFR 2014-36)

# Corrective Actions – Property Related

- Training regarding:
  - accounting for general PP&E, in accordance with GAAP (generally accepted accounting principles);
  - property policy and procedures;
  - accounting for acquisition and disposal of property; and
  - capitalizing personal property with the correct acquisition cost
- Setup CWIP activities and CWIP project codes in a timely manner
- CWIP Policy – Review, Update, and Implement
- Salvage Value Policy – Review, Update, and Implement
- Review program costs for non-GAAP compliant costs
- Annual Inventory – Better instructions and controls
- System Enhancements
- Design and implement control improvements related to WBS (work breakdown structure) information

# Next Steps

- Keep moving forward to achieve operational corrective actions by 9/30/2015.
- Continue to identify risk areas and address collectively among all stakeholders.
- Maintain open information exchange and communication on a routine basis.
- Continue to be aware of your roles and responsibilities with regards to CWIP and PP&E.

# Why do we care?

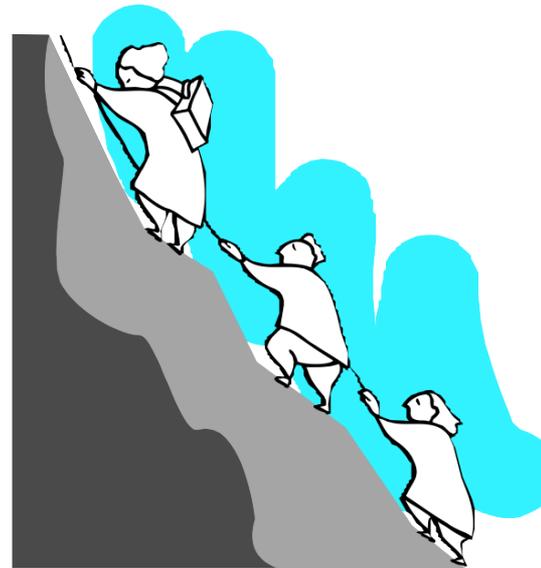
- Required by law to properly account for PP&E.
- Material asset to NOAA:
  - CWIP (\$7.4 billion) made up **70%** of NOAA's FY 2014 PP&E balance (\$10.6 billion).
  - PP&E (\$10.6 billion) made up **70%** of NOAA's FY 2014 total assets (\$15.2 billion).
  - NOAA (\$10.6 billion) made up **88%** of DOC's FY 2014 PP&E balance (\$12.1 billion).
- CWIP was a significant deficiency in FY 2014, a material weakness in FY 2013, and the subject of several audit NFRs in the past
  - DOC will **FAIL** annual financial audit if NOAA's CWIP balances are not fairly stated.

# Recent Policy Changes

- Added Section 4.2.4 to address project codes in cancelling fund codes.
- Created a new Section 5.1 to explain the different types of costs. This new section caused the subsequent sections within Section 5.0 to move by one.
- Revised Section 5.4 (previously Section 5.3), Capitalized and Expensed Indirect Costs, to clearly define NOAA's policy regarding indirect costs.
- Revised Sections 5.12, Monthly CWIP Reconciliation Process, and Section 6.1.2, NF 37-6 – Report of Property Constructed, to include information regarding CWIP project codes in cancelling fund codes.
- Modified Section 5.11, CBS CWIP Report (CA500D) to include that unpaid expenditures must also equal zero before a project code will be purged from the CA500D report.
- Modified Appendix F to add the following sections: CWIP Activity Determination and Set-Up, Transferring CWIP Activities within NESDIS, and Salvage Value.

# Challenges in FY 2016 and Beyond

- Communication
- Date costs transferred from CWIP to PP&E
- Completeness of CWIP
- Timeliness
- Non-compliance with CWIP Policy
- Impairments
- Review of CWIP Reconciliations
- Training
- Review of IPAC payments



# Knowledge Check

1. CWIP Activity Manager	Submits copies of all obligating documents and related invoices to the CWIP Activity Manager
CWIP Project Manager	Reviews/approves/distributes monthly CWIP reconciliations
Line Office CFO	Ensures CWIP activities are properly charged to CWIP accounting and maintains the CWIP documentation file

Select all that apply to the following statement. Click on the Submit button when you are done.

2. **Annual CWIP training is mandatory for \_\_\_\_\_.**

- NOAA Finance Office
- CWIP Project Managers
- Real Property, Facilities and Logistics Office
- CWIP Activity Managers

# Knowledge Check

3. Complete the following sentence by selecting the best group of inserts from the list below.

CWIP is a \_\_\_\_\_ to track costs during construction. The costs remain in \_\_\_\_\_ until the \_\_\_\_\_ has been accepted by NOAA.

Click on the Submit button when you are done.

temporary holding account ; CWIP ; PP&E

temporary budgeting process ; CWIP ; funds

government-wide process ; CWIP ; costs

4. NOAA's CWIP balance is a focal point of the annual financial statement.

True

False

# Knowledge Check

5. If CWIP balances are not fairly stated, the Department will fail the annual CFO's financial audit.

True

False

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# Chapter Review

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## Introduction to CWIP Accomplishments

Having completed this chapter, you are now able to:

- Explain the purpose and importance of CWIP
- Understand the 3 major asset groups
- Describe when we begin tracking CWIP
- Understand who is responsible for tracking CWIP costs
- Explain which activities are considered CWIP
- Define when a project is complete

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## **Phase 1: Project Planning**

# Chapter Overview

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## Phase 1: Project Planning Overview

This chapter introduces users to the first phase of the CWIP process. In addition, this chapter identifies and explains roles for each office during the Project Planning Phase.

### Objectives

After completing this chapter, you will be able to:

- Understand the Project Planning Phase key tasks
- Explain the roles/responsibilities of each office during this phase

# Phase 1: Project Planning

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## Project planning phase for a CWIP Activity – Key Tasks

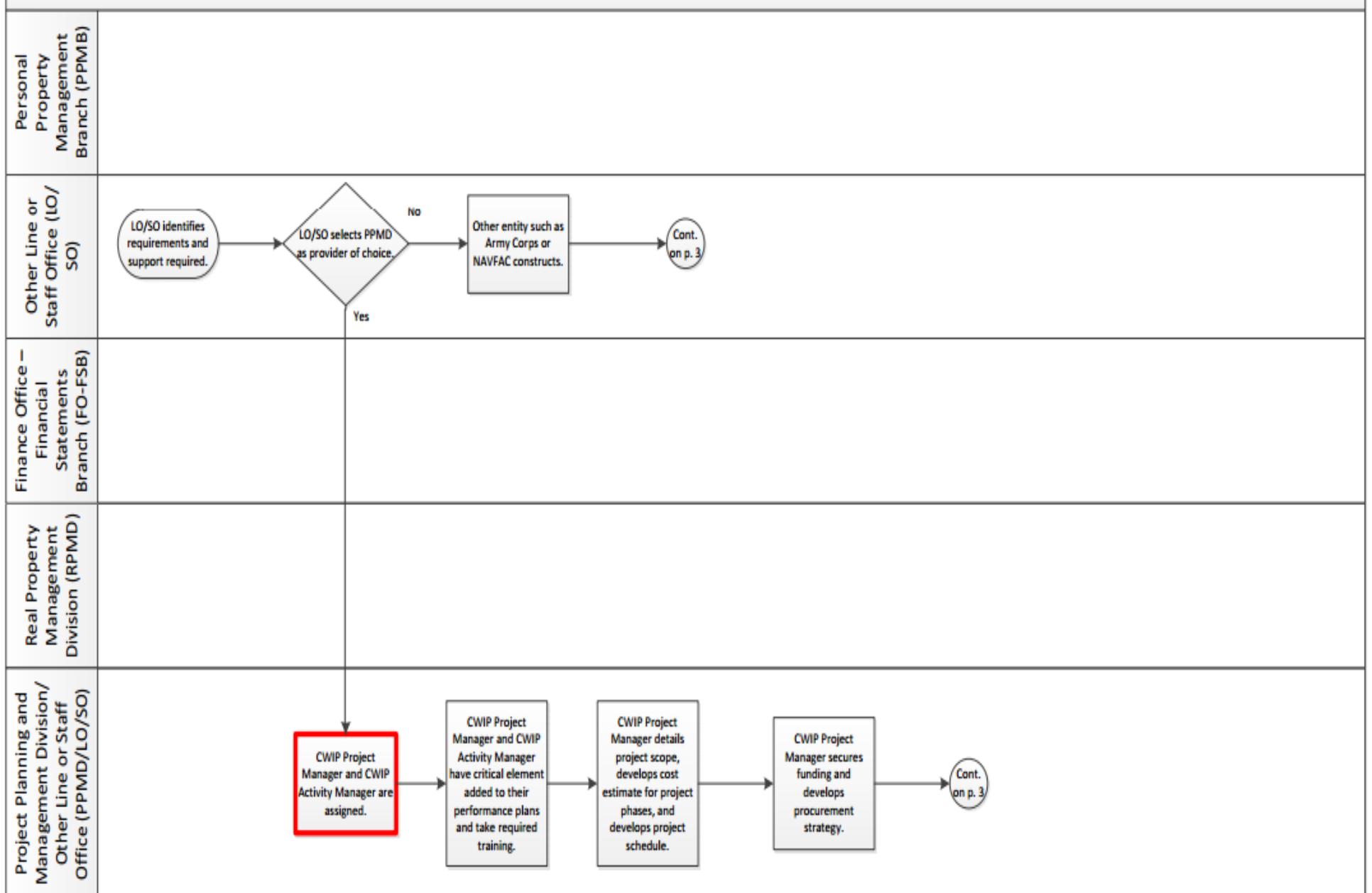
### Line Office

- Designate a CWIP Project Manager and Activity Manager. Ensure that CWIP critical element language is incorporated into their performance plan and that they take annual CWIP training.
- Ensure that a unique CWIP and non-CWIP project code is assigned to capture costs.

### CWIP Activity Manager

- Attend mandatory training.
- Send the Finance Office (FO) the *CWIP Activity List Form* (Appendix S.2, *CWIP Policies and Procedures*), which includes the CWIP activity,
- Obtain a unique CWIP Activity Number, from the FO/FSB.

# Project Planning Phase



# Receivable Record with Navigation

## When should an activity be processed as CWIP?

- If the PP&E is expected to be capitalized after it's constructed, the activity must be tracked as CWIP
- LO/SO CWIP determinations are ultimately reviewed by the OCAO, specifically:
  - PPMO
  - RPMD
  - PPMB

## Subsequent Determinations

Subsequent determinations must be made for capital improvements. For example:

- If the project consists of smaller components, the aggregate cost is used to determine if it is a CWIP activity
- If an activity extends the useful life of an asset, or enlarges/improves its service capacity, it is considered a capital improvement and must be treated as CWIP activity.

# Integral vs. Non-Integral

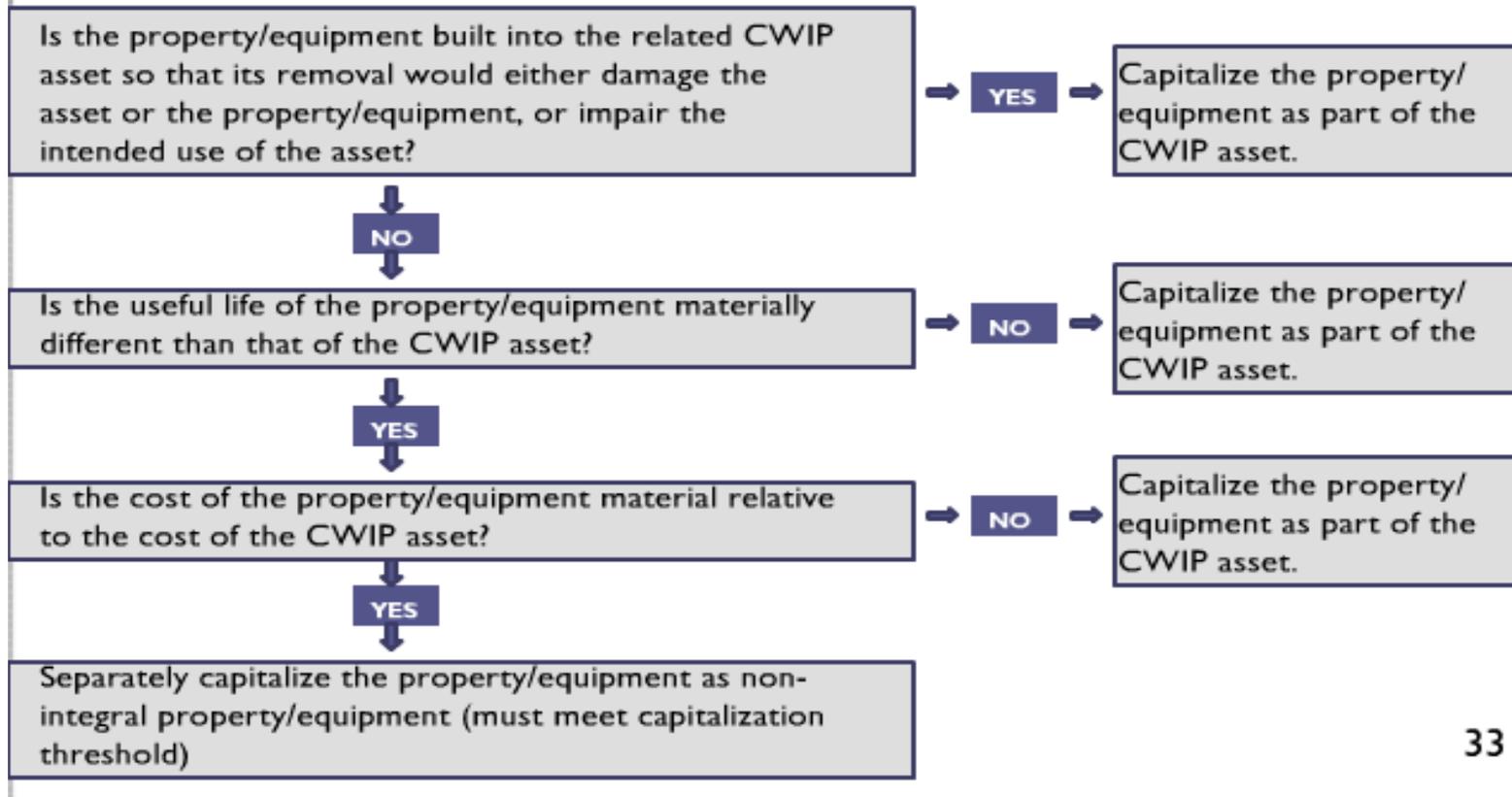
## Integral vs. Non-integral Property and Equipment

- If an item is an **integral** part of a CWIP asset, then the item will be considered a cost of the CWIP activity
- Property and equipment that is **non-integral** to the CWIP asset should be capitalized or expensed, and not included in the cost of the CWIP asset

# Integral vs. Non-Integral

## Decision Tree - Integral vs. Non-Integral

This is used for determining whether an item of Property/Equipment is Integral (and should be capitalized as part of the CWIP asset) OR Non-Integral (and should be separately capitalized) to the related CWIP asset



# Knowledge Check

1. Who is responsible for providing valid depreciation codes?

- Finance Office, Financial Statements Branch
- CWIP Project Manager
- LO/SO Headquarters Office
- Personal Property Management Branch (PPMB)

2.

The CWIP Project Manager is the individual who provides construction management support and needed CWIP documentation to the CWIP Activity Manager.

- True
- False

# Knowledge Check

The CWIP Project Manager is responsible for maintaining financial control over each CWIP activity, whether the activity is real property, personal property or internal use software.

- True
- False

# Chapter Review

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## Phase 1 : Project Planning

Having completed this chapter, you are now able to able to:

- Understand the Project Planning Phase key tasks
- Explain the roles/responsibilities of each office during this phase

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## **Phase 2: Determination**

# Chapter Overview

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## Determination Phase Overview

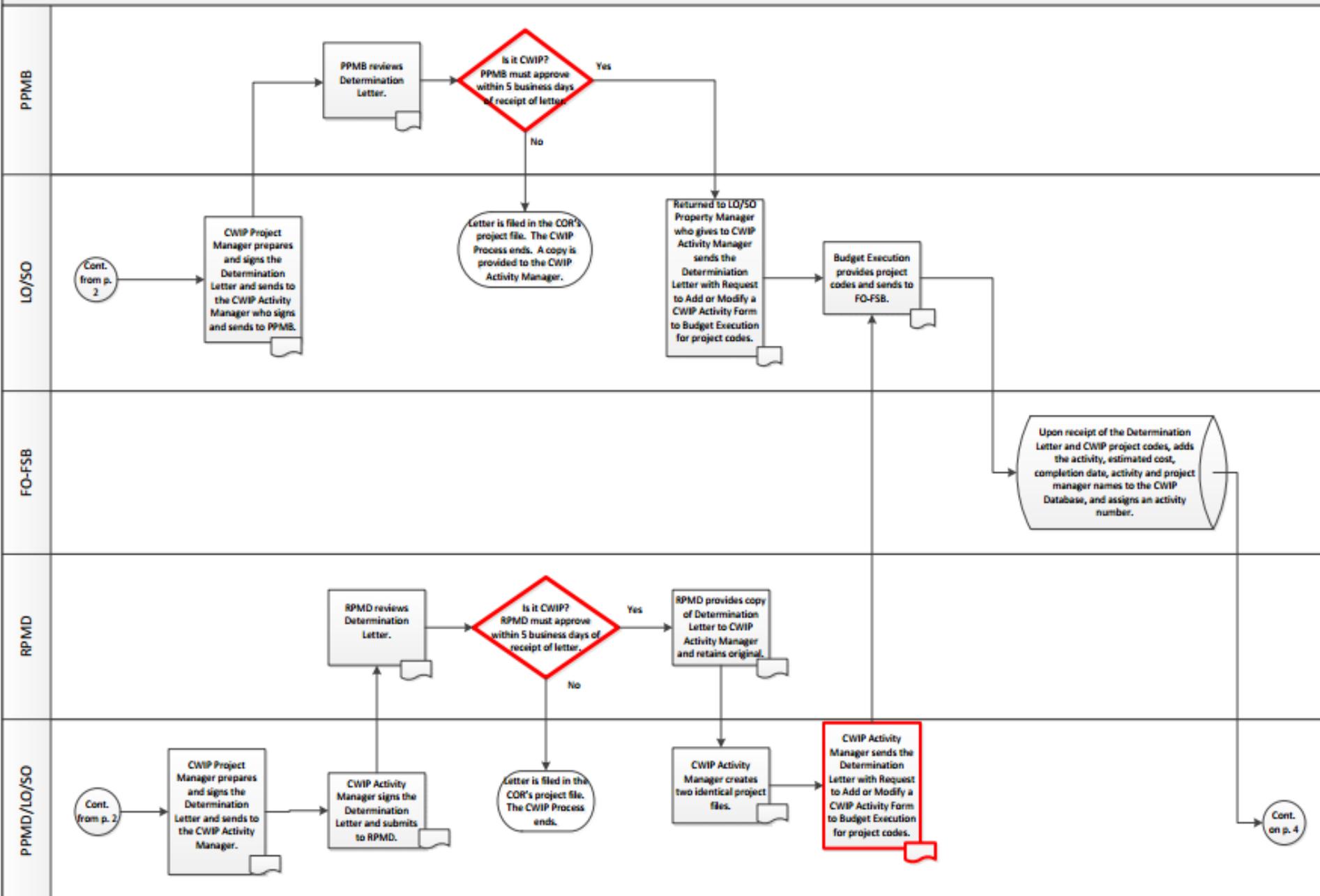
This chapter focuses on how a project is classified as CWIP. We will also look at the steps involved with both real property and personal property CWIP determinations.

## System Interfaces Objectives

After completing this chapter, you will be able to:

- Understand the importance of a Determination Letter
- Explain the roles of the Project Manager, Activity Manager, and Budget Office during this Phase
- Understand the differences between Real Property and Personal Property within Phase

# Determination Phase



# Phase 2: Determination Phase

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## Determination Phase Steps

1. Determine whether an activity is CWIP or not. (L/SO, PPMB and RPMD)
2. Complete CWIP Determination Letter that documents why an activity is CWIP. (L/SO)
3. Establish a CWIP Activity in the CWIP Activity database. (L/SO and FO)
4. Establish project codes. (L/SO and FO)

## Identify CWIP Activities BEFORE Costs Incur

- This practice is a must!
- It is critical that a unique CWIP project code and a non-CWIP project code be assigned at the start of an activity.

### **WHY?**

**To avoid time-consuming accounting adjustments of obligated documents and “after the fact” retrieval of supporting documentation.**

# Project Code Assignment

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Once an activity is identified as CWIP and funds are available, the CWIP Activity Manager ensures that the required CBS CWIP project codes are immediately assigned to the CWIP Activity by the Budget Execution Office (BEX).

A CWIP project must have, at a minimum, 2 project codes assigned:

1. A unique CWIP project code for costs that are to be capitalized
2. A non-CWIP project code for costs that will not be capitalized, but will be expensed.

## **CWIP Project Code Funding Sources**

CWIP projects are paid from 2 types of funding:

- Operations Research and Facilities (ORF)
- Procurement Acquisitions and Contracts (PAC)

## **Funding Account Codes**

For CWIP activities derived from ORF funding, the second position of the project code should be a “4” at all times. (i.e. x4xxxxx)

For CWIP activities derived from PAC funding, the second position of the project code should be a “2” and the fourth position should be an “F” at all times. (i.e. x2xFxxx)

# Phase 2: Determination

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It is imperative that the appropriate **unique** CWIP project code structure be followed when assigning project codes to CWIP activities, or the CWIP Activity Manager will be required to make corrections when non-compliant project codes are identified.

It is important that **each** project **code issued** be **used for only one** CWIP activity.

Some positions of the project code may be used as unique identifiers to a specific CWIP activity. For example, a project code for the Fairbanks Satellite Operations Facility might have an “FAR” as the identifier for either ORF or PAC (i.e., H4P7FAR,ORF; or 62LFFAR,PAC)

# Knowledge Check

1. In order for a construction project to be CWIP, it must meet the \_\_\_\_\_ criteria.

Documentation

Debt/Equity ratio

Established timeline

Capitalization

2. A minimum of \_\_\_\_\_ project codes will be used for each CWIP activity.

# Knowledge Check

3. If an item is an integral part of a CWIP asset, the item will be considered a cost of the CWIP activity.

True

False

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4. During the planning phase of a project, CWIP determinations will be made for each construction project prior to any costs being incurred.

True

False

# Knowledge Check

5. CWIP reconciliations are performed on a monthly basis only when accounting problems occur.

- True
  - False
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# Chapter Review

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## Determination Phase Accomplishments

Having completed this chapter, you are now able to able to:

- Understand the importance of a Determination Letter
- Explain the roles of the Project Manager, Activity Manager, and Budget Office during this Phase
- Understand the differences between Real Property and Personal Property within Phase

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## **Phase 3: Construction**

# Chapter Overview

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This chapter focuses on the construction phase of a CWIP project. We will also look at the roles involved during the construction phase.

## Construction Phase Objectives

After completing this chapter, you will be able to:

- Understand the process of the Construction Phase
- Explain the roles of the Project Manager and Activity Manager during this Phase
- Articulate the documents required to be present in the CWIP file
- Understand the new CWIP policy regarding indirect Costs

# Construction Phase

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## Activity Manager actions during the construction phase

**Track Costs** — accurately segregate, track, and record — either as capital CWIP costs or expensed CWIP costs.

**Perform Reconciliations** — perform a monthly independent verification of project balances on the Commerce Business System's CWIP Report (CA500D).

**Maintain Documentation File** — retain copies of all CWIP obligating documents, from inception to completion.

# CWIP File

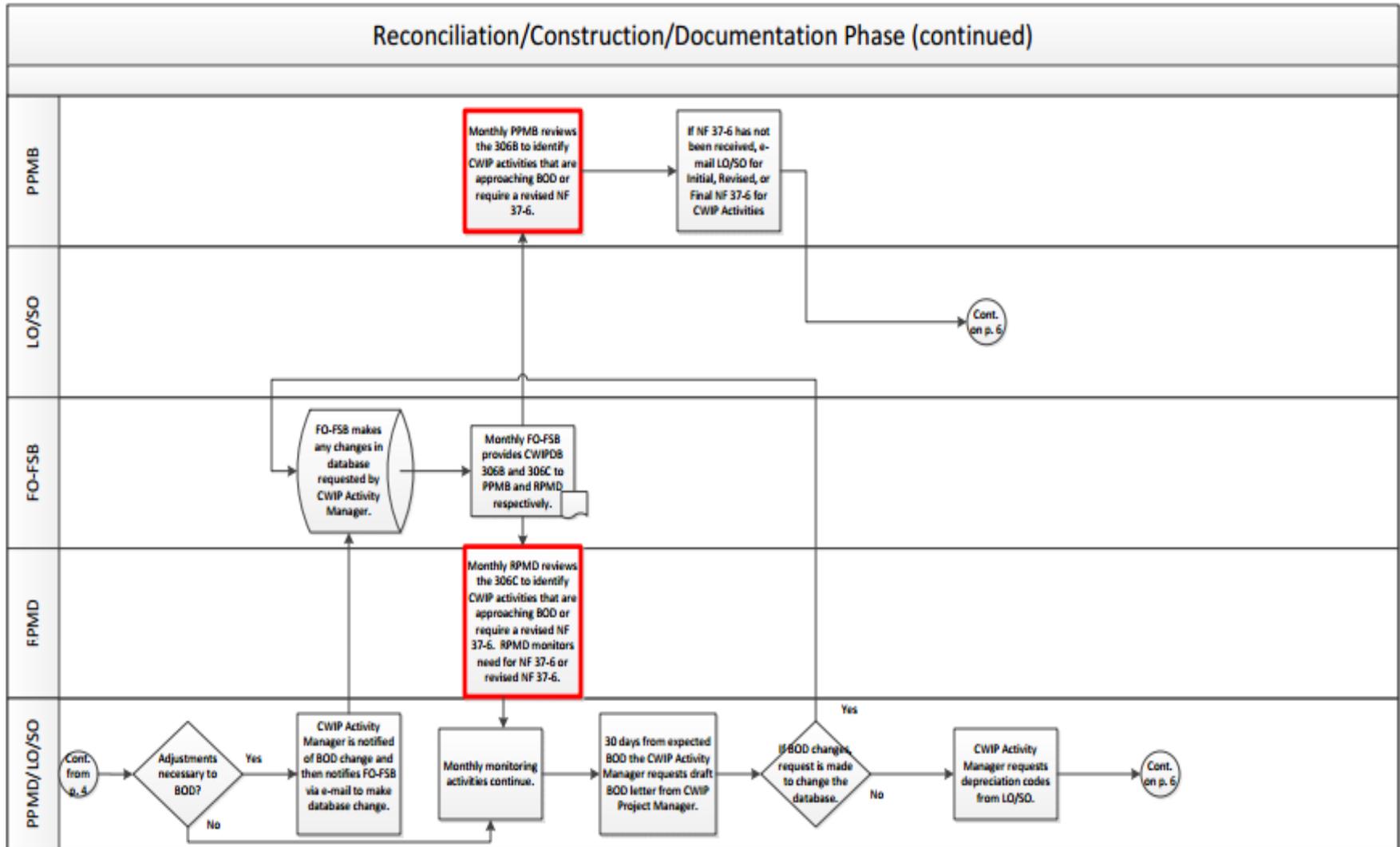
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## Documentation requirements

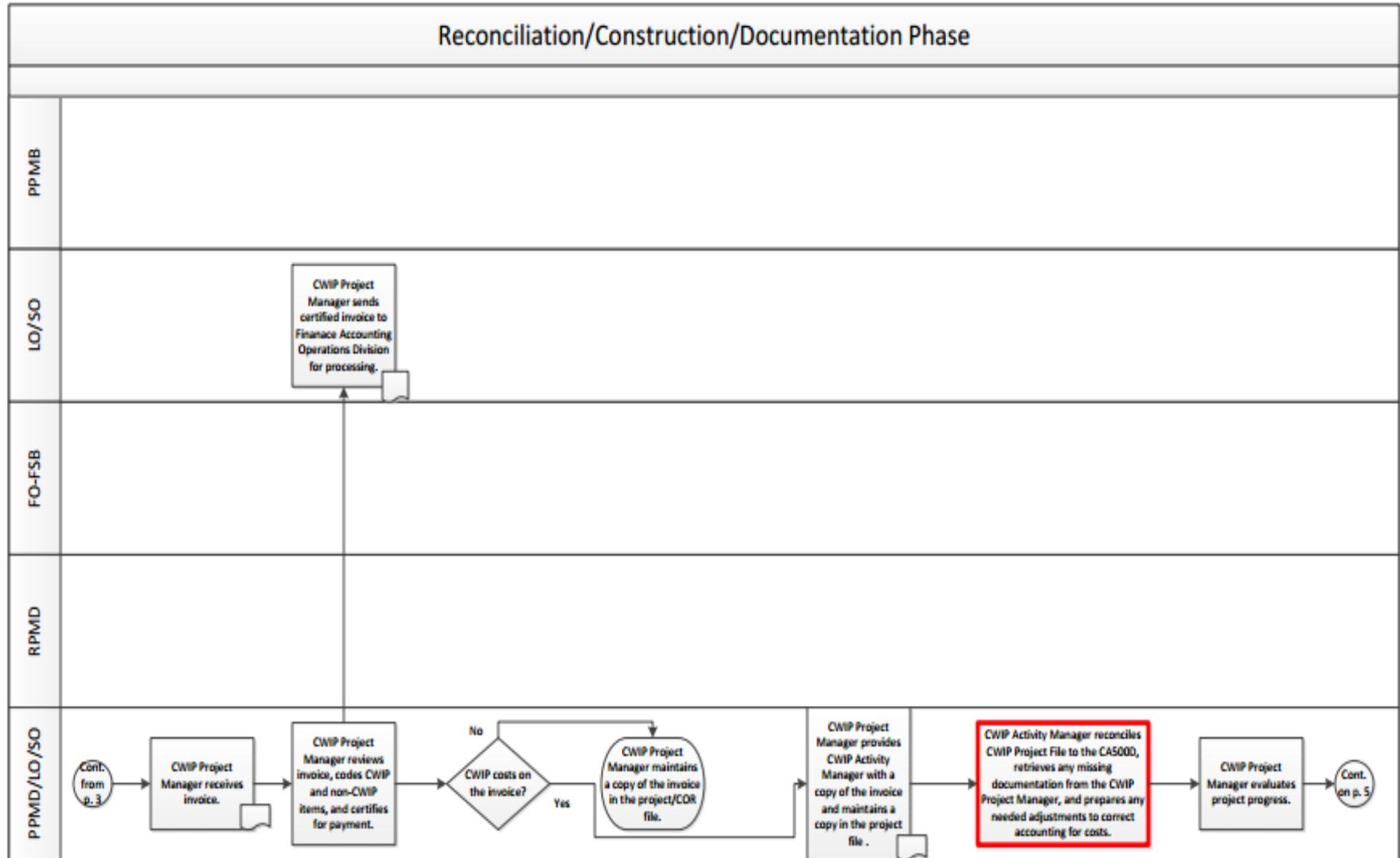
The CWIP documentation file must contain the following, but is not limited to:

- CWIP Determination Letter.
- Required annual Summary Level Transfers (SLTs) for “incidental and administrative” costs.
- Monthly CWIP reconciliations.

# Flowchart



# Flowchart cont.



## Documentation requirements

The CWIP documentation file must contain the following, but is not limited to:

- CWIP Determination Letter.
- Required annual Summary Level Transfers (SLTs) for “incidental and administrative” costs.
- Monthly CWIP reconciliations.
- Copies of all obligating contract awards (including Statement of Work) with modifications and vendor invoices for:
  - Architectural and engineering contract design.
  - Geotechnical surveys.
  - Construction.
  - Engineering support during construction, etc.
- Copies of labor reports documenting direct labor costs.
- Bills of lading for transportation charges and billing for storage costs (of Government Furnished Equipment).
- Copies of invoices for duplicating drawings and specifications for final design.
- CD-509 (Property Transaction Report) for personal property construction.
- CWIP spreadsheet or planning document as a cost and documentation checklist.

# Costs

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## Capitalized Costs

Specific examples of costs that should be included for capitalization are:

- Planning activities resulting in final design.
- Actual contract costs with modifications for:
  - Architectural and engineering contract design,
  - Geotechnical surveys
  - Construction
  - Engineering support during construction, etc.
- Storage costs of Government Furnished Equipment (GFE) delivered prior to installation date.
- Direct labor costs for in-house design and engineering.

# Costs

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For all CWIP activities, *incidental and administrative* costs should be captured for the following:

- Labor for procurement, finance, supervisory, clerical, etc.
- Labor for engineers performing project management tasks associated with Architectural and Engineering (A/E) design effort and construction management tasks
- Program/client labor associated with design review and construction management
- All other non-labor expenses such as travel, printing (other than final design drawings that go with the construction solicitation), ordinary supplies, etc.

# Costs

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## Expensed Costs

These costs *should not be included in CWIP for capitalization*, but recorded as an *expense*. Specific examples include:

- Ordinary administrative supplies
- Personal property developed as prototypes and equipment constructed for Research and Development
- Labor for procurement, finance, supervisory, clerical, engineers performing project management, etc.
- Travel.
- Spare parts not capitalized as part of the CWIP asset
- Non-integral property and equipment that does not meet the \$200,000 capitalization threshold

# Reimbursable Projects

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## **CWIP Activities Funded by Reimbursables**

Some construction activities are funded by both direct/appropriated and reimbursable money.

For construction activities funded by reimbursable funding, either by NOAA or from another Government Agency, costs will be included in the total value of the activity.

# CWIP Reconciliations

CWIP Activity Managers must exercise keen financial oversight of their CWIP projects, as reported on the CBS CWIP Report (CA500D), because NOAA's CWIP balance is a focal point of the annual financial statement audit.

- Reliable and valid CWIP balances can only be achieved if they are regularly monitored and reconciled to NOAA's subsidiary record for CWIP — the CA500D Report.
- This responsibility lies with the CWIP Activity Manager for their assigned CWIP projects.
- The CWIP Activity Manager must complete and submit monthly CWIP reconciliations using the standard CWIP Reconciliations Template.
- Errors noted on the monthly CWIP reconciliation must be corrected by the CWIP Activity Manager within 4 weeks of submitting the CWIP reconciliation.

# CWIP Impairments

## Incomplete/Impaired CWIP

What defines an incomplete or impaired CWIP?

- Impairment is defined as, “The condition that exists when the carrying amount of a long-lived asset (asset group) exceeds its fair value.”
- If an impairment loss is recognized, the adjusted net book value of a long-lived asset shall be its new cost basis.
- CWIP Project Managers must prepare a formal analysis, on an annual basis, for all open real and personal property CWIP projects to determine if the CWIP project is viable or likely to be completed.

**If an impairment situation occurs, the CWIP Project Manager must perform an impairment analysis and notify FO-FSB, via the Financial Statement and Stewardship Data Call.**

# CWIP Advances

## Advances/Prepayments for CWIP

At times, NOAA advances or prepays funding to other Government Agencies for CWIP activities (such as the U.S. Department of Navy, U.S. Army Corps of Engineers, etc.). When funding is advanced or prepaid, the CWIP Activity Manager must ensure that obligations are allocated correctly using the CWIP or related non-CWIP project codes. The CWIP Activity Manager must maintain a spreadsheet identifying each project code with advanced/prepaid funds for CWIP activities and the amount of advanced/prepaid funds that have been completed, identified by CWIP and related non-CWIP project codes.

**During the Financial Statement and Stewardship Data Call, the CWIP Activity Manager must notify and submit a spreadsheet to FO-FSB detailing advanced/prepaid funds vs. the amount of work completed-to-date analysis.**

# Knowledge Check

1. If an item is being built, which will be capitalized, but does not involve multiple steps and will be obligated in the same FY, is establishing a CWIP activity required?
  - Yes
  - No
  
2. When is the appropriate time to submit an NF37-6 for a vessel when the total construction costs will exceed \$1M, the construction period of performance will extend over two FYs and has not been completed (or commissioned)?
  - The NF37-6 should be submitted when the project is completed (or commissioned).
  - The NF37-6 should be submitted at the end of each FY because of the projected costs threshold.
  - The NF37-6 should be submitted when the project is 50% completed to capture all costs at that point.

# Knowledge Check

3. Costs funded by reimbursable funding external to NOAA are not included in the total value of the construction/development activity if a Memorandum of Understanding transfers the asset to NOAA at the end of the construction activity.
- True
  - False
4. When construction activities are complete and the NF37-6 is prepared, is the NOAA-appropriated portion as well as the "transferred-in" portion of a reimbursable included?
- Yes
  - No
5. For reimbursable funding internal to NOAA, the asset should be entered into the property system as a straight " \_\_\_\_\_ " using the reimbursable project code as the acquisition code.
- Add
  - Transfer In

# Knowledge Check

6. Does NOAA depreciate assets in reimbursable funds?
- Yes
  - No
7. An impairment is defined as "the condition that exists when the carrying amount of a long-lived asset (asset group) \_\_\_\_\_ its fair value.
- Exceeds
  - Falls Under
8. A formal impairment analysis is submitted to the Financial Statements Branch on a:
- Monthly basis
  - Quarterly basis
  - Annual basis
  - None of the above

# Chapter Review

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## **Construction Phase Accomplishments**

Having completed this chapter, you are now able to:

- Understand the process of the Construction Phase
- Explain the roles of the Project Manager and Activity Manager during this Phase
- Articulate the documents required to be present in the CWIP file
- Understand the new CWIP policy regarding indirect Costs

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## **Phase 4: Capitalization**

# Chapter Overview

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This chapter provides an overview of the roles and responsibilities for each CWIP assigned role during the Capitalization Phase.

## Chapter Objectives

After completing this chapter, you will be able to:

- Completing, reviewing and certifying the NF 37-6 “Report of Property Constructed”
- Recording the asset in the appropriate property system and CBS
- Closing out the CWIP activity

# PP & E

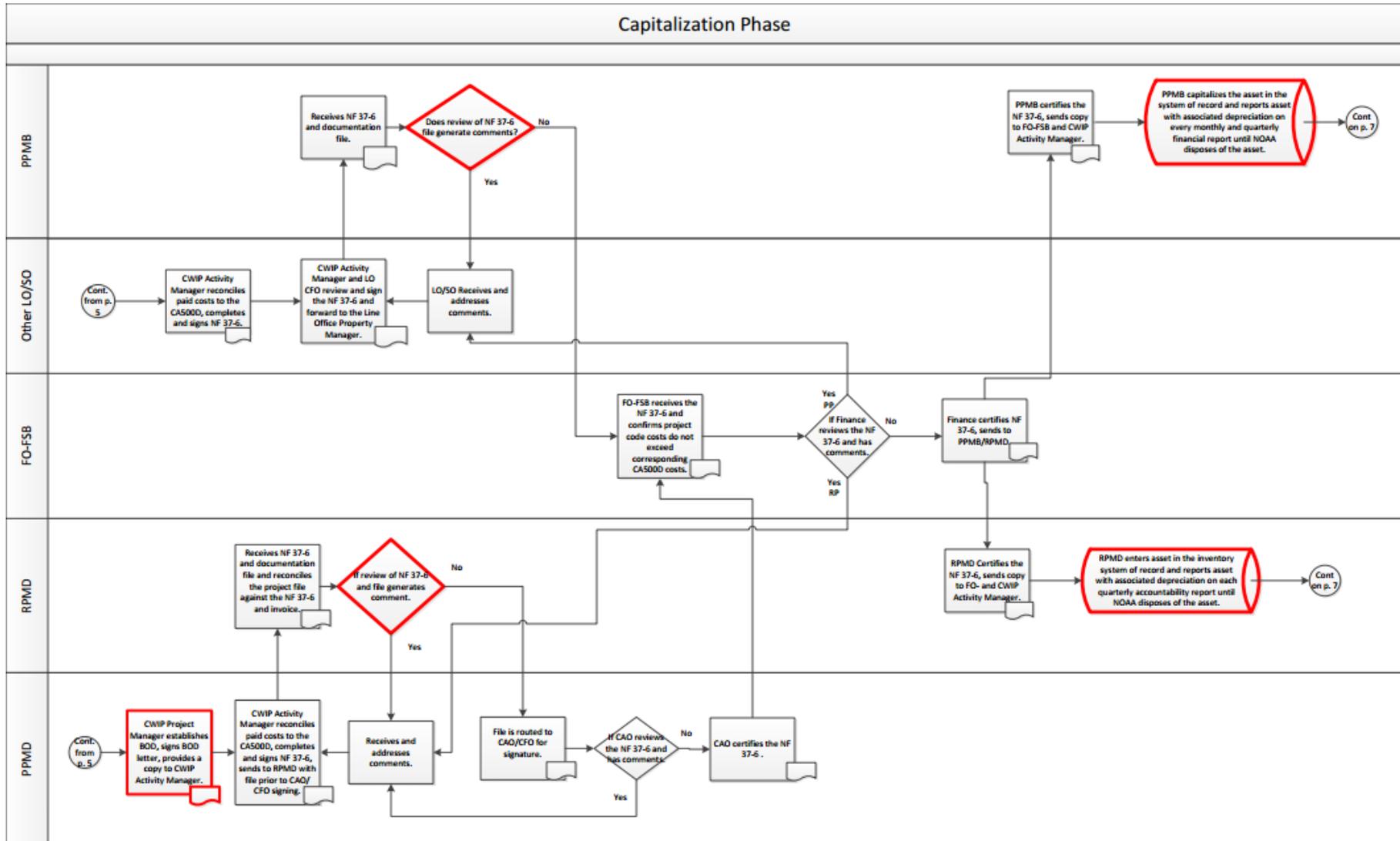
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Personal Property and Equipment (PP&E) will be recorded as CWIP until such time as:

1. Immediately following the substantial completion/Beneficial Occupancy Date (BOD), the capital costs accumulated in CWIP must be transferred from the CWIP account to the general Personal Property and Equipment (PP&E) asset account.
2. Personal property is ready for its intended purpose and date placed into service.

When the above has been established, NOAA will transfer the asset from CWIP to Personal Property and Equipment (PP&E).

# Flowchart



# Capitalization Phase Steps

## Capitalization phase

- The constructed asset costs will be transferred from a CWIP status to general PP&E on the effective acceptance date, BOD, or the date the satellite or vessel is declared operational.
- To initiate the transfer, the CWIP Project Manager must complete a BOD letter (or similar document) and forward a copy to the CWIP Activity Manager.
- Upon receipt of the BOD letter, the CWIP Activity Manager must complete NF 37-6 (Report of Property Constructed).
- If the asset is personal property, the Property Custodian must provide a completed CD-509 (Property Transaction Request) to the CWIP Activity Manager.
- NF 37-6 costs will be based on CWIP paid expenditures as noted in the CA500D Report and supporting documentation that is contained in the CWIP Documentation File.

# NF 37-6 Steps

Steps for Certification	Description
<b>Project Manager</b>	Immediately, upon acceptance/substantial completion/BOD, the Project Manager informs the Activity Manager via a copy of the completed BOD letter.
<b>Property Custodian</b>	Complete and submit the CD-509 (if personal property) to the CWIP Activity Manager
<b>Activity Manager</b>	Complete the NF 37-6 and submit to the FO/CAO/Deputy CAO for certification.
<b>CFO/CAO/Deputy CAO</b>	After review and certification of the NF 37-6, send the signed copy to Finance office.
<b>FO-FSB (Finance)</b>	After review and approval, the Finance Office sends signed NF 37-6 to appropriate property office.
<b>Activity Manager</b>	After receiving the signed NF 37-6 back from Finance, sends the CWIP documentation file to the appropriate property office.
<b>RPMD/PPMB</b>	Review and approve the NF 37-6 and forward the final signed copy to Financial Statements Branch and the CWIP Activity Manager.

# Knowledge Check

## 1. Match the Role with the Responsibility

<p>Constructed asset costs are transferred to general PP&amp;E following the acceptance date/BOD or date the satellite or vessel _____.</p>	<p>Is declared operational via the NF 37-6</p>
<p>_____ is signed by the Activity Manager, LO/CFO or CAO, Finance, and Real or Personal Property Office.</p>	<p>A completed CD-509</p>
<p>If the constructed asset is personal property, the Property Custodian must provide the CWIP Activity Manager with a _____.</p>	<p>A NF 37-6</p>

## 2. The approved timeline for NF 37-6 submissions for Assets with Acceptance Date/BOD and revisions to previously submitted NF 37-6s greater than \$200,000 are from:

- October 1 - July 12: CWIP Activity Manager/LO - 40 calendar days, Financial Statements Branch - 10 calendar days, and RPMD/PPMB - 30 calendar days.
- July 13 - September 30: CWIP Activity Manager/LO - must generate/submit an estimated NF37-6 to the Financial Statements Branch by September 10 and the Financial Statements Branch/RPMD/PPMB - review/approve timeframe must be adjusted to ensure that the NF37-6 will be processed by the end of the fiscal year.
- All of the above

# Knowledge Check

3. "Incidental and Administrative Costs" are calculated as a percentage of the estimated:
- A. Direct Labor
  - B. Construction Contract Costs of real property
  - C. Total CWIP Project Costs of personal property
  - D. A & B
  - E. B & C
  - F. All of the Above
4. When an item is an integral part of a CWIP asset, the item will be:
- Considered a cost of the CWIP activity
  - Expensed
  - None of the above

# Knowledge Check

5. To which of the following offices should the CWIP Activity Manager send the complete CWIP Documentation File when the project has reached BOD and/or substantial completion and the approval of the NF37-6 has been received from the Financial Statements Branch?
- LO/SO Headquarters Office
  - CWIP Project Manager
  - Property Office (Real or Personal)
  - None of the above

# Knowledge Check

6. Which of the following are included as CWIP costs for capitalization?
- Planning activities resulting in final design, actual costs for architectural and engineering task orders for contract design and "incidental and administrative" costs.
  - Planning activities resulting in final design, personal property equipment developed as prototypes, duplication cost of 100% design drawings, construction contract costs and all modifications.
  - Actual Contract costs with modifications for architectural and engineering contract design, Geotechnical survey costs, storage costs of GFE delivered prior to installation date and personal property equipment used for administrative support.
  - Actual contract costs with modification for architectural and engineering contract design, duplication costs of 100% design drawings and equipment constructed for Research and Development that is intended as experimental.

# Chapter Review

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## **Phase 4: Capitalization Accomplishments**

Having completed this chapter, you are now able to able to:

- Understand the steps of the phase and roles of each assigned individual

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## **Phase 5: Post-Capitalization**

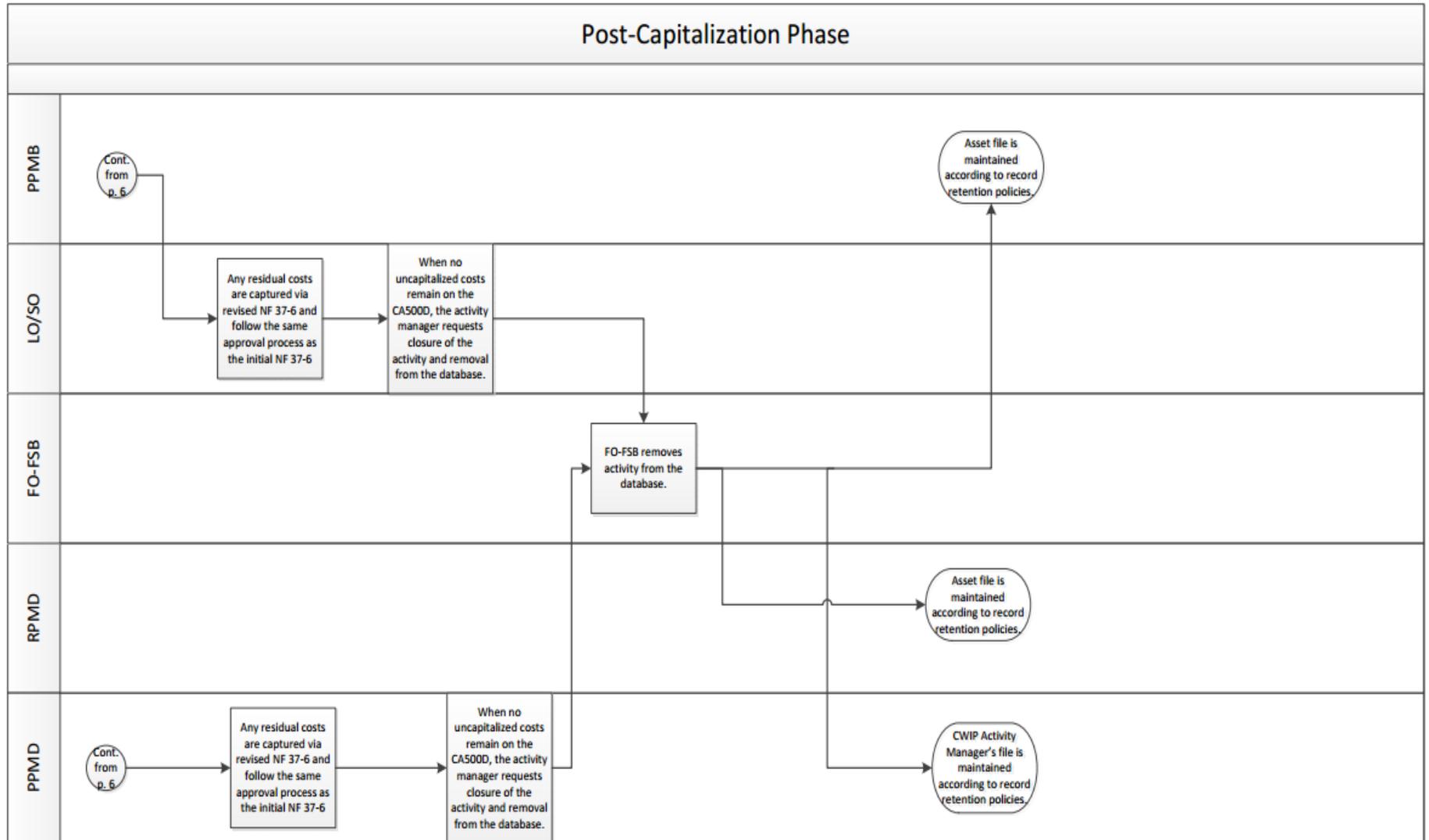
# Chapter Overview

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## Overview

This chapter provides an overview of the CWIP process and responsibilities after the asset has been successfully capitalized.

# Post-Capitalization Phase



# CWIP Closing

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## Closing Out a CWIP Project

After the initial NF 37-6 has been processed, any residual costs are captured via a revised NF 37-6 and follow the same approval process as the initial NF 37-6.

When no uncapitalized costs remain on the CA500D report, the Activity Manager requests closure and removal from the database.

FO-FSB will remove the activity from the database, and no additional obligations or expenses may be loaded to the activity.

## IMPORTANT:

It is imperative that **all** costs have been paid prior to the activity being closed. Once an activity is closed, it cannot be reopened.