



**NOAA** NATIONAL OCEANIC AND  
ATMOSPHERIC ADMINISTRATION  
UNITED STATES DEPARTMENT OF COMMERCE

# Introduction to the NOAA CWIP and PP&E Workshop

May 8, 2013

# Logistics

- Please ask questions via conference call.
  - Do not ask questions using the Go To Meeting application.
  - There will be Q&A at the end of each session.
- Please make sure to mute your phones.

# Topics

- FY 2012 Audit Results and the Current Audit Environment
- Construction Work-In-Progress (CWIP)
- CWIP Training Update
- Personal Property Update



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# **FY 2012 Audit Results and Current Audit Environment**

# Purpose

- Outcome of the FY2012 financial audit
- Re-engage you on the topic of compliance

*“In an era of constrained budgets, there is a greater risk that management will take shortcuts, loosen internal controls, and deemphasize oversight, in order to devote resources to other requirements.”*

- OIG–13-003; Top Management Challenges, FY2013

# Internal Control Defined

Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws, regulations and procedures.

\* ***OMB Circular No. A-133***

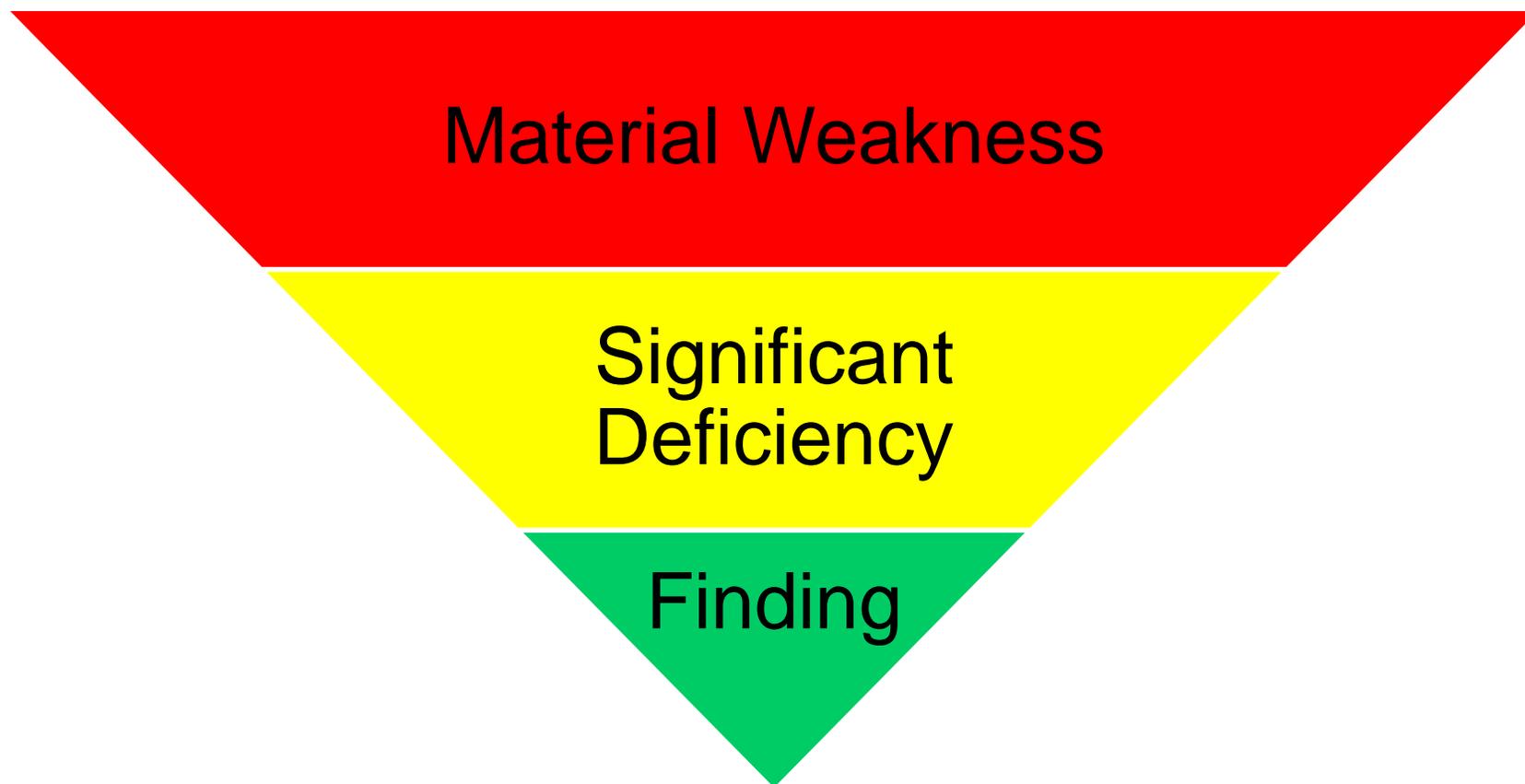
# Internal Control Deficiency

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, detected and corrected on a timely basis.

- Independent Auditors' Report FY2012

# Severity of Audit Findings



“The National Oceanic and Atmospheric Administration (NOAA) accounts for 86 percent of the Department’s net property PP&E of \$9.8 billion.”

- FY2012 Independent Auditors Report

# Summary of Findings

- Overall – NOAA had 30 findings; 17 of which, when aggregated, were determined to be a material weakness
- DOC received a material weakness on its FY12 Financial Audit due to issues found within the following financial control areas at NOAA:
  - Budgetary Controls (2 Findings)
    - NWS use of Summary Level Transfers (SLTs) to avoid exceeding budget authority - (ADA)
    - NWS use of appropriations for program activities that may not meet the intended purpose – (ADA)
  - Property Management - Accounting for Satellites (6 Findings)
    - Timing of depreciation entries were not in line with operational status of the ground system
    - Failure to record property transfer (DSCOVN) from NASA
    - Issues with review, approval and classification of IPAC costs from NASA
    - JPSS impairment analysis
  - Property Management - Accounting for Property other than Satellites (9 Findings)
    - Untimely recording of capital assets and transfers of CWIP projects
    - Failure to complete personal property inventories at multiple sites
    - Removal of property from service without the corresponding financial record updates
    - Failure to capitalize property on the Unreconciled Property Report (UPR)
    - CWIP policies related to capitalizing costs and negative account balances

# Corrective Action - Property Management – Satellite

- CWIP Policy – Review/Update
- Complete carry forward for JPSS component levels
- Interagency Payments (IPAC) Review and Approval Policy
  - Satellite Component (NASA/AF)
  - Apply NOAA-wide
- Establish Monthly Satellite Status Meetings
  - NESDIS/FO – Chair
  - Include – JPSS/GOES/POES, NASA, DOC
  - Identify any adds/deletes/transfers/mods to satellite program require CBS entries
  - Engage contractor to generate FY13 accounting by 6/30
- Skill set/gap analysis of accounting for satellites in NESDIS, OCFO, & Program Offices
  - Training/Hire to fill
- NESDIS/Finance processes to monitor satellite CWIP

# Corrective Action - Property Management – Non-Satellite

- CWIP Policy – Review, Update, & Implement
- Unreconciled Property Report (UPR) (untimely action on UPR)
  - LO/SO, CAO, CFO
  - Update SES Performance Plans
- Annual Inventory
  - List of staff who did not complete
    - Review their performance plans
    - Supervisor evaluation
    - How not escalated through OCAO?
  - Review findings at UPR monthly meetings
- CWIP reconciliation review
  - Eliminate anomaly balances
- CAO/Finance processes to monitor CWIP and Property
- Training

# Next Steps

- Keep charging – achieve operational corrective actions by 6/30/2013.
- 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.



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# Construction Work –In-Process (CWIP)

# Agenda

- What is CWIP?
- Why do we care?
- Overview of Process and Responsibilities
- Recent Policy Changes
- Current Issues
- Contacts



# What is CWIP?

- Construction Work in Progress (CWIP) and Internal Use Software in Development (IUSD):
  - Temporary asset holding accounts (1720 and 1832) used to track cost during the **design and construction of property, plant, & equipment (PP&E)**.
  - Constructed – not bought as-is or off-the shelf.
  - Material **capital asset** on NOAA's financial statements.
- Criteria for CWIP (must meet all four conditions):
  - Aggregate **acquisition cost of \$200k or more**, and
  - Estimated **service life of 2 years or more**, and
  - **Long-term economic benefit** to the organization which maintains or obtains control, and
  - **Not intended for sale** in the ordinary course of operations.

# Why do we care?

- Required by law to properly account for PP&E.
- Material asset to NOAA
  - CWIP made up 79% of NOAA's FY 2012 PP&E balance.
  - PP&E made up 65% of NOAA's FY 2012 total assets.
  - NOAA made up 86% of DOC's FY 2012 PP&E balance.
- **Material weakness** last year and area of significant audit findings in the past
  - Worst case scenario without losing clean audit opinion.
  - DOC will FAIL annual financial audit if NOAA's CWIP balances are not fairly stated.

# Overall Process

- Planning Phase

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



# Overall Process (cont.)

- Construction Phase

- Track and capture all the costs. (L/SO)
- Maintain supporting documentation, specifically cost information, in CWIP Activity Manager's file. (L/SO)
  - Subset of the documentation due to RPMD/PPMB.
- Perform monthly reconciliation of the CWIP Documentation File to CBS CWIP Report (CA500D). (L/SO)
- Review the reconciliation. (FO)
- Monitor and update the CWIP Activity Database. (L/SO, PPMB, RPMD, and FO)



# Overall Process (cont.)

- Capitalization/Completion Phase
  - Complete the NF 37-6 form. (L/SO)
  - Review and certify the NF 37-6. (FO)
  - Review and certify the NF 37-6 and supporting documentation. (PPMB/RPMD)
  - Enter the asset into the appropriate property system. (PPMB/RPMD)
  - Record the asset in CBS. (FO)
  - Close out the CWIP activity (L/SO and FO)



# Roles and Responsibilities

- NOAA Finance Office (FO):
  - Issues, interprets, monitors, and maintains the CWIP policy.
  - Runs CWIP-related reports and posts CWIP-related entries in CBS.
- NOAA Personal and Real Property Offices (Personal Property Management Branch (PPMB) and Real Property Management Division (RPMD)):
  - Overall responsibility for oversight of NOAA's CWIP activities.

## Roles (cont.)

- Chief Financial Officer (L/SO CFO) and NOAA's CAO (Deputy CAO):
  - Ensures a CWIP Activity Manager and a CWIP Project manager is designated for each activity.
  - Ensures that mandatory annual CWIP training, CWIP reconciliations, and NF 37-6s are completed.
- NOAA Line/Staff Office (L/SO) Headquarters Office:
  - Provides construction requirements and funding.

# Roles (cont.)

- CWIP Activity Manager (L/SO):
  - Has overall responsibility for financial and budgetary activities involving the activity.
- CWIP Project Manager (L/SO):
  - Provides construction management support.



# Recent Policy Changes

- PP&E shall be recorded as CWIP until **it is placed in service**, at which time the balance shall be transferred from CWIP to general PP&E. (FASAB SFFAS 6)
  - Real property = Beneficial Occupancy Date (BOD)
  - Software = Date final acceptance testing has been successfully completed in a production environment
  - Satellite ground systems = Date when the possession and operations of the asset are handed over to a NESDIS operating organization.
  - NOAA satellite sensors/instruments on a non-NOAA owned satellite = Date when the data is declared and determined operational by the user community (i.e. NESDIS Program Office(s), other NOAA L/SOs, or non-governmental end users).

# Recent Policy Changes (cont.)

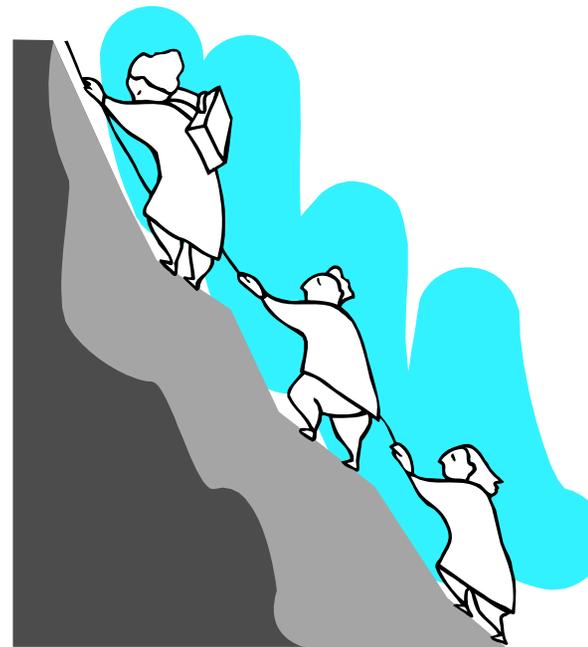
- Placed in Service Date (cont.)
  - NOAA owned satellite and sensors/instruments = Date after successful launch and the satellite successfully passes NESDIS Calibration and Validation (Cal/Val) or in-orbit testing. Data from all of the instruments on the satellite has to be determined operational and being received by the user community.
  - Types of assets not listed above = Select appropriate placed in service date and document the reasons that date represent the placed in service date
  - Significant events an/or milestones may be used to determine placed in service date
  - Case-by-case exceptions to these guidelines must be approved by L/SO Headquarters Office, FO, and the appropriate Property Office

# Recent Policy Changes (cont.)

- Program costs
  - No longer allowed to be just charged to CWIP.
  - Required to correctly capitalize and expense costs even if the program exists for the sole purpose of constructing an asset(s).
- Appropriate date and useful life for subsequent NF 37-6s (Personal Property only)
- New impairment guidance
- Overall reorganization of the policy
- Removal of checklists, forms, templates, etc.
  - Can be located on the FO CWIP Website

# Challenges in FY 2013 and Beyond

- Communication
- Accruals
- Impairments
- Review of Reconciliations
- Review of IPAC payments
- Leasehold Improvements
- Dates costs transferred from CWIP to PP&E
- Timeliness and Completeness
- Non-compliance with CWIP Policy



# Contacts in FO-FSB

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Questions?



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# CWIP Training Update

# CWIP Training Update

- Mandatory training each FY
  - CWIP Project Manager
  - CWIP Activity Manager
  - (If newly appointed CWIP Project/Activity Manager, must take/pass within one month of appointment)
- CAO will coordinate/monitor training and inform L/SO CFO of required staff participation
- FY 2013 training available through Commerce Learning Center (CLC)
  - May 20, 2013 (pending finalization of CWIP Policy)
  - Will include new CWIP Policy updates.



Questions?



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# Personal Property Update

# Personal Un-reconciled Payments Report (UPR)

## What is the UPR?

- Un-reconciled Payments Report
- Created in response to past audit findings
- Accounts for all property purchased with an accountable object class code (31-XX)
- Payments matched to property records in Sunflower are “reconciled”
- Payments not matched to a corresponding Sunflower property record are listed on UPR

# Personal Un-reconciled Payments Report (UPR)

## How does it work?

- Twice a week, files are captured from CBS of all payments against object class code 31-XX  
These files are loaded to a Sunflower repository table  
Sunflower utilizes the following fields to match personal property records against CBS payment records:
  1. Document Number
  2. Organization Code
  3. Project Code
  4. Task code
  5. Object Class Code
  6. Asset Value

Asterisks appear on UPR reports to denote partial reconciliation  
Document numbers correction will not reconcile, requires manual suppression

# Personal Un-reconciled Payments Report (UPR)

## **NOAA PMO Property Bulletin #003, FY 2013**

**Subject:** Modified Procedures and Guidance for Reconciling the Un-reconciled Payments Reports and Requirements for Supporting Documentation

### **UPR Certifications**

- Property Managers are required to reconcile all UPR transactions monthly
- UPR Certification and Memorandum signed by the Line Office Assistant Administrator (AA) are due to PPMB by the last Thursday of each month
- Must include an explanation for each payment listed on the UPR

# Personal Un-reconciled Payments Report (UPR)

## Management Notifications

- UPR items in excess of 90 days will be sent to NOAA's Chief Administrative Office (CAO) for review
- NOAA CAO will report UPR certifications not received by the last Thursday of each month to the AA of the respective line office

# Personal Property Web Page Links

## NOAA Learning Center

- **UPR and CD 50/52 Training**

<https://doc.learn.com/learncenter.asp?sessionid=3-0004D051-AB0D-4CF0-A49B-0DB312E99E60&id=178418>

- **Personal Property Policies and Procedures and Bulletins**

[http://www.pps.noaa.gov/personal\\_property\\_policies\\_procedures/](http://www.pps.noaa.gov/personal_property_policies_procedures/)

[http://www.pps.noaa.gov/training\\_and\\_education/](http://www.pps.noaa.gov/training_and_education/)

- **PPMB Contacts**

<http://www.pps.noaa.gov/contact.html>



Questions?



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# Conclusion