

Plant, Property and Equipment Business Process/Procedure
Acquisitions: Capital Project Close Out
Effective: July 2016

Overview

To describe the procedure for transferring CIP costs and placing into service capital projects.

Responsibilities:

Facilities and Real Estate Services (FRES)

FRES is responsible for initiating, managing, and accounting for all capital projects at the University and for determining when a project is substantially complete* and ready to be placed into service. FRES is also responsible for assigning costs related to construction to its various components and for providing this information to Accounting Operations to create the assets in BEN Assets.

*Within 60 days after a capital project is substantially completed, FRES is responsible for preparing a summary report, commonly referred to as a “componentization schedule” and providing this report to Accounting Operations. FRES is also responsible for informing Accounting Operations of the in-service date to be used for all assets created from the capital projects.

Accounting Operations (AO)

AO is responsible for using the information obtained from FRES to create journal entries to transfer costs from CIP to Buildings and Fixed Equipment (B&FE) and/or Land/Land Improvements and for adding the corresponding assets manually to BEN Assets. AO is also responsible for developing financial metrics for prevention/detection. Additionally, AO is responsible for responding to external audit and consultant requests.

Treasury

Treasury is responsible for providing funding certificates to an appropriate distribution list, including Accounting Operations. Treasury is also responsible for managing internal loans created for capital programs.

Financial Systems

Financial Systems is responsible for cross-validating journal entries after and for disabling capital program values once a project has been finalized.

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Business Procedure

Capital Vs Non-Capital Projects

1. Capital projects are renovations and new construction with estimated total costs of \$100,000 or more, including:
 - a. New Construction Projects
 - b. Renovation Projects
 - c. Buying new facilities
 - d. Buying land
 - e. Buying equipment
 - f. Buying new information systems
 - g. In general, buying anything “lasting” that costs more than \$100K
2. Renovations and other projects with estimated total costs of less than \$100,000 are normally not capitalized. Items typically not considered as capital are:
 - a. Projects under \$100K
 - b. Regular Operations & Maintenance
 - c. Facilities Related Customer Work

Substantially Completed and/or Finalized Capital Projects

When a capital project is *substantially complete**, costs must be transferred from the construction in progress (CIP) object codes (19xx object codes in the 000010) to depreciable asset categories (187X clearing accounts) and the asset(s) must be placed into service. The process of cost transferring has several main parts detailed below. Completion of each part in this process takes approximately 90 calendar days and BEN Assets automatically calculates depreciation adjustments so that the assets are properly valued upon being entered into BEN Assets. The depreciation adjustments resulting from the 90 calendar day completion time is not considered to have a material impact on the financial statements.

**Substantial Completion* – When a certificate of occupancy is issued for newly constructed buildings, the corresponding capital project is determined to be substantially complete. For all other capital projects, when total spending reaches 85% of the total project budget, the project is determined to be substantially complete. The in service date to be inputted into BEN is the date of substantial completion.

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Part 1 – Journal Entries at Substantial Completion

(Completed Within 90 Days After a Capital Project Is Substantially Completed)

Step 1: Componentization Schedule Prep, Review, & Approval (FRES)

Componentization Schedules (CS) are prepared by the accountants within the FRES team. The CS depicts all the cost categories for the project. The accountant will review the Schedule of Values (SOV) included in the most recent Application and Certificate For Payment (AIA document) to categorize the construction work on the CS. Non-tangible line items, such as Architect Fees and Bonds are allocated across the other construction categories; interior construction, plumbing, electric, HVAC, etc. After the CS is prepared by the accountant, the Senior Capital Accounting Manager or the Controller within the FRES team will review and sign off on the report. Once a CS is reviewed and approved, the full report will be provided to the AO team in the Comptroller’s Office. The approval and sign off within FRES on a CS authorizes the AO team to proceed with cost transferring journal entries. A sample of a CS for program number B085 can be seen below.

Project Name	MOORE SCH ELEV MODERN		Componentization at Occupancy						PM:	Gallagher
Program Number	B085								PA:	Joyner
Project Number	14030.00								Penn owned or leased:	01/00/00
								Other Indirect		
Title	Total Object Code 1920	% of Total	Amount to be Allocated	Subtotal	From Object Code Detail	Subtotal	% of Total	Costs to be Allocated	Total	
#28021 Building	0.00	0.00%	0.00	0.00		0.00	0.00%	0.00	0.00	
# 29021 Roof Cover	0.00	0.00%	0.00	0.00		0.00	0.00%	0.00	0.00	
#29041 Floor Cover	0.00	0.00%	0.00	0.00		0.00	0.00%	0.00	0.00	
#29061 Ceiling Finishes	0.00	0.00%	0.00	0.00		0.00	0.00%	0.00	0.00	
#29081 Interior Construction	7,533.68	4.47%	5,047.79	12,581.47	0.00	12,581.47	4.47%	286.41	12,867.88	
# 29091 Doors	0.00	0.00%	0.00	0.00		0.00	0.00%	0.00	0.00	
#29101 Plumbing	0.00	0.00%	0.00	0.00		0.00	0.00%	0.00	0.00	
# 29111 Fire Protection	0.00	0.00%	0.00	0.00		0.00	0.00%	0.00	0.00	
# 29124 Security System	0.00	0.00%	0.00	0.00	0.00	0.00	0.00%	0.00	0.00	
# 29141 HVAC	25,040.00	14.84%	16,777.54	41,817.54		41,817.54	14.84%	951.95	42,769.50	
#29161 Electric	0.00	0.00%	0.00	0.00	0.00	0.00	0.00%	0.00	0.00	
# 29173 Elevators	136,144.00	80.69%	91,220.53	227,364.53	0.00	227,364.53	80.69%	5,175.83	232,540.36	
#29181 Paging System	0.00	0.00%	0.00	0.00		0.00	0.00%	0.00	0.00	
#30021 Landscaping, Land Improvements	0.00	0.00%	0.00	0.00		0.00	0.00%	0.00	0.00	
Fixed Equipment	0.00	0.00%	0.00	0.00		0.00	0.00%	0.00	0.00	
Movable Equipment	0.00	0.00%	0.00	0.00	0.00	0.00	0.00%	0.00	0.00	
#29193 Other Building Services	0.00	0.00%	0.00	0.00		0.00	0.00%	0.00	0.00	
Total	168,717.68	100.00%	113,045.86	281,763.54		281,763.54	100.00%	6,414.20	288,177.74	

A = Amount to

Step 2: Componentization Log & Cost Transferring Journal Entries (AO)

Componentization Log

Once the CS is received by AO, a member of the staff will first update the “componentization log” to confirm receipt of the document. The componentization log includes details such as

- Program Number
- Date Received
- Program Name
- Project Number
- In Service Date
- Final? (Yes/No)
- Date Completed By AO
- Number of Days Backlogged
- Currently Assigned To

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- Completed By
- Comments
- Date Reviewed

The componentization log should be reviewed daily by AO. The “Number of Days Backlogged” field in the componentization log refers to the number of days that has passed since receipt of the CS without any action from AO. CSs should not go unaddressed for more than 15 calendar days. CSs that have been unaddressed for more than 15 calendar days should be addressed immediately by AO.

Journal Entries at Substantial Completion

After the componentization log is updated, a member of the AO staff can then proceed with preparing journal entries for the capital project using the information contained within the CS. CSs that are received prior to the 15th workday of the month are to be addressed by AO by the end of the current month. CSs that are received after the 15th workday of the month are to be addressed by AO by the 15th workday of the subsequent month.

When preparing entries at substantial completion, AO will query the capital program number in Business Objects to obtain a report detailing the total project to date costs accumulated on the project. A sample report from Business Objects for program number B085 can be seen below.

Program Bal's-Seven Segment
Actual Mo.,Fyt., Pjt - MAY-11

#####

	Org	BC	Fund	Objct Code	Prgm	Cref	Act Mo Bal	Act FYT Bal	Act End Bal	Act PJTD Bal
000	0004	0	000010	1966	B085	0000	0	4,378.48	4869.06	4869.06
960	9600	0		1920	B085	0000	0	245,313.54	281763.54	281763.54
960	9600	0		1936	B085	0000	0	0.00	100.94	100.94
960	9600	0		1937	B085	0000	0	1,545.14	1545.14	1545.14
960	9600	0		1941	B085	0000	882.15	8,074.75	9132.39	9132.39
960	9600	0		1961	B085	0000	0	0.00	0	0
960	9600	0		1962	B085	0000	0	0.00	0	0
960	9600	0		1965	B085	0000	0	69.24	1977.57	1977.57
960	9600	0		1990	B085	0000	0	-7,261.84	-10328.75	-10328.75
			000010				Sum:	252,119.31	289059.89	289059.89
								Sum:	289,059.89	289059.89
							Sum:	252,119.31		

AO will review the report generated from Business Objects and determine the capitalizable vs non-capitalizable cost accounts. Non-capitalizable cost accounts are automatically expensed in BEN via a mass allocation journal entry at the end of every month. Due to this

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automatic journal entry, no action is required from AO on non-capitalizable cost accounts. The mass allocation journal entry to expense the non-capitalizable cost accounts is as follows:

Dr. XXX-XXXX-0-000010-4828-XXXX-XXXX
Cr. XXX-XXXX-0-000010-1990-XXXX-XXXX
Dr. XXX-XXXX-1-000000-5408-XXXX-XXXX
Cr. XXX-XXXX-1-000000-4828-XXXX-XXXX

The non-capitalizable cost accounts that are automatically expensed each month are as follows:

- 1914 UTIL TOSITE REL
- 1927 TELEPHONE/COMM
- 1929 ASBESTOS REMOV
- 1936 PERMITS
- 1938 MSC REPRO PRTNG
- 1939 PSOM PROJECT FEE
- 1940 CONSTR MGMT FEE
- 1941 CAPITAL PROJ MGMT FEE
- 1942 EXPENSE FURNITURE
- 1943 EXPENSE TEC/SCI EQUIP
- 1944 EXPENSE BLDG MAINT EQUIP
- 1953 INTERR DES CON
- 1960 MOVING ALLOW
- 1961 OTHER
- 1962 PROJECT CONTIN
- 1963 PROJECT MGMT
- 1964 UTILITES DURING CONSTRUCTION
- 1965 UTILITY SHUT DOWNS
- 1969 APPROVED BUDGET OVER BID

For capitalizable cost accounts, AO must prepare a manual journal entry to transfer amounts accumulated in the capitalizable cost accounts to the CIP clearing account (1990) and must also transfer the costs from the CIP clearing account to the 187X asset clearing object codes. The assets categories that are subsequently created will be based off of the CS received from FRES. Due to the timing of when the CS is received and when the closing entries are made by AO, the asset categories reported on the CR will need to be allocated based on the actual costs reported in the Business Objects report generated by AO on the day the journal entries are made. A sample of this allocation can be seen below for program number B085. The “Total” column should always equal the amounts reported in

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the CS and the prorated cost should always equal the amount that is being transferred to the 187X asset clearing object codes.

Category	Original Costs			Asset #
	Total	% Of Total	Prorated Cost	
Building		0.00%	0.00	
Roof Cover		0.00%	0.00	
Floor Cover		0.00%	0.00	
Ceiling Finishes		0.00%	0.00	
Interior Construction	12,867.88	4.47%	12,867.88	242030
Doors		0.00%	0.00	
Plumbing		0.00%	0.00	
Fire Protection		0.00%	0.00	
Security System		0.00%	0.00	
HVAC	42,769.50	14.84%	42,769.50	242031
Electric		0.00%	0.00	
Elevators	232,540.36	80.69%	232,540.36	242032
Paging System		0.00%	0.00	
Landscaping, Land Improvements		0.00%	0.00	
Fixed Equipment		0.00%	0.00	
Moveable Equipment		0.00%	0.00	
Other Building Services		0.00%	0.00	
	288,177.74	100.00%	288,177.74	
	288,177.74		0.00	

When preparing journal entries to the 000010 fund, CIP, excluding object code 1966 (Capitalized Interest) should always be transferred to the CNAC/ORG where the costs are accumulated. Capitalized Interest, on the other hand, should always be transferred to CNAC 000 and ORG 0004. The journal entry to the 000010 fund for program number B085 is shown below.

960-9600-0-000010-4828-B085-0000	283,308.68	
960-9600-0-000010-1990-B085-0000		283,308.68
000-0004-0-000010-4828-B085-0000	4,869.06	
000-0004-0-000010-1990-B085-0000		4,869.06

Likewise, when preparing journal entries to the general fund (000000), the proper asset object codes should be used and total CIP should be transferred to the CNAC/ORG where the costs are accumulated. Additionally, the appropriate program number to be used when transferring to the general fund is the “related building code” listed in BEN for the project program. Regardless of the CNAC/ORG/Program used in the general fund, however, there will always be a year end mass allocation entry to reclassify into the 0033 ORG. The journal entry to the general fund for program B085 is shown below.

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960-9600-1-000000-1879-9634-0000	288,177.74	
960-9600-1-000000-1881-9634-0000		
960-9600-1-000000-4828-9634-0000		288,177.74

Once the journal entries and assets have been created in BEN by AO, the entries and related support are provided to the Director of Accounting Operations for review.

Step 3: CIP Metrics and Analysis (AO)

After initial journal entries are prepared by AO (Step 2 above) at substantial completion, additional costs will continue to accumulate in the project until the project is 100% completed. In certain instances, these costs can be significant and can accumulate over an indefinite period of time. To prevent costs from over-accumulating in CIP, at least once a month, AO will review balances in CIP and request “interim” CSs from FRES when it is determined that the total costs accumulated is significant. The accumulation of costs is considered significant when both of the following conditions have been met

- 1) Total additional costs incurred is 10% or more of the total project to date costs incurred on the capital project
- 2) Project has been open for 6 or more months since initial journal entries at substantial completion

Additionally, AO will develop financial metrics and provide to FRES on a monthly basis. These metrics will be provided as a method of continuously improving timeliness of CS prep and AO review. Examples of metrics to be provided include

- 1) Number of Days Since Project Substantially Complete and Initially Journalized
- 2) Average Turnover Rate of Projects Journalized at Substantial Completion
- 3) Total Cumulative Depreciation Adjustments Resulting From Out of Period Journal Entries
- 4) Projects Certified 100% Complete, But Without a CS Received by AO

Part 2: Interim Journal Entries
Completed Within 90 Days After an Interim CS Is Requested

Step 1: Componentization Schedule Prep, Review, & Approval (FRES)

Part 1, Step 1 above is repeated by FRES. Additionally, when the interim CS is prepared, the individual asset cost categories will be re-evaluated for changes in the “Schedule of Values (SOV)” prepared by the contractor. Contractor changes to the SOV are common and expected until the project is 100% complete. As a result, FRES must continually review and re-evaluate asset cost categories until the project is 100% complete.

Step 2: Componentization Log & Interim Journal Entries (AO)

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Part 2, Step 2 above is repeated by AO. Additionally, AO will need to cost adjust existing assets in BEN for changes made to the individual asset categories. Sometimes, new assets may also have to be created to account for the changes in the CS. Adjustments to the asset keys related to the capital project are expected until the project is 100% complete.

Part 3: Final Journal Entries
Completed Within 90 Days After a Final Certification Is Issued

Step 1: Componentization Schedule Prep, Review, & Approval (FRES)

Part 1, Step 1 above is repeated by FRES. The CS that is prepared in this state is considered final and signifies that the project is 100% complete. When preparing the CS, FRES performs their final evaluation of the SOVs and the final individual asset cost categories are created. No additional changes are expected after the final CS is prepared

Step 2: Issuance of Final Certification (Treasury)

When a capital project is 100% complete and notification is provided to Treasury, a final certification (FC) will be prepared to summarize the total funding for the capital project. Once the FC is prepared, Treasury will provide to AO via e-mail.

Step 3: Componentization Log & Closing Journal Entries (AO)

Part 1, Step 2 above is repeated by AO. As an additional step, AO will document receipt of the FC from Treasury in the componentization log. Additionally, AO will make final cost adjustments to existing assets in BEN for changes made to the individual asset categories. Once the closing journal entries are made and all assets have been adjusted to their final values, no further entries or asset adjustments are to be made.

Step 4: Disable Capital Program Value (AO/Financial Systems)

After the final closeout entries are prepared and posted by AO, AO will notify Financial Systems that all entries have been made. Once Financial Systems obtains confirmation from AO that all entries have been made, they are to then begin the process of disabling the program value. Disabling the program value is necessary to prevent future activity from being posted to the program value.

Creation of Capital Assets in BEN

Creation of capital assets in BEN is the responsibility of AO. The information to create buildings, fixed equipment, land and land improvements is obtained from the CS and BEN Financials. The information to create moveable equipment assets is obtained from the CS, BEN Financials and the Property Management Form.

In order to create capital assets, excluding moveable equipment, the following information is required to be inputted into BEN at the time of asset creation.

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- Description – The description of the asset created will be the same as the capital program description from the CS and will include the project # prior to the program description (I.E “08047.00 New College House)
- Asset Category
- Asset Key
- Does the Govt. Retain Title? Y/N – if the government does retain title, costs of the asset should be expensed
- Custodian – This will be the building manager for the primary building
- Custodian Phone number, formatted as follows: ###-###-#### x##, including area code and extension, if applicable
- Tagging Contact – This will be the same as the custodian
- Tagging Contact Phone number, formatted as follows: ###-###-#### x##, including area code and extension, if applicable
- Location – This will be the space related code attached to the primary asset (I.E “0248-N/A-N/A”
- In-service date – date asset is placed in service

BEN Assets will create journals to transfer the acquisition cost for assets created from the Clearing Account (1879) to the Cost Account (1820). These entries will be posted to the G/L at the end of each month when depreciation is run and the current period in BEN Assets is closed.

In order to create moveable equipment assets, the following guidelines should be followed.

- All moveable equipment purchased using CIP object codes for capitalizable equipment (**19xx**) will be reviewed by FRES to identify those items that qualify as a capitalizable asset. Those equipment costs which do not meet the University’s capitalization policy are recorded using CIP object codes for expensible equipment (19xx) and are automatically transferred to an expense object code on a monthly basis. For capitalizable equipment, FRES will provide the invoices and property management information (in conjunction with the appropriate School/Center) to AO so that AO can create the asset in BEN Assets. The Property Management Form can be accessed via the Comptroller’s website at http://www.finance.upenn.edu/comptroller/forms/#Financial_Reporting . If the item does not qualify as a capitalizable asset, FRES will then notify PMG of cost to be expensed. PMG will prepare an entry to expense the cost.
- Upon notification by FRES, AO creates a manual journal to close out the equipment purchased as part of the construction project to the appropriate clearing account:

1870 Furniture and Fixtures Clearing Account

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1871 Computer Equipment Clearing Account
1872 Other Capitalized Equipment Clearing Account

Reconciliations

1. AO will periodically during the month review the activity in the G/L clearing account (**1879 Building and Fixed Equipment Clearing Account**) to identify the Building and Fixed Equipment assets that need to be created.
2. On a monthly basis, AO will reconcile the acquisition cost of assets in BEN Assets with the balances in the clearing account in the G/L. Any reconciling items must be reviewed and addressed promptly. Reconciling items should be aged and should be cleared within 90 days.
3. On a monthly basis, AO will reconcile the new assets created in BEN Assets with the activity in the G/L. Any reconciling items must be reviewed and addressed promptly. Reconciling items should be aged and should be cleared within 90 days.
4. AO will add current month additions to the Plant Rollforward schedule