

IUS Implementation Guidance Exposure Draft

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Federal Financial Accounting Technical Release, *Implementation Guidance for Internal Use Software*

Please submit to fasab@fasab.gov

Name of Respondent: William Fleming

Organization: U.S. Securities and Exchange Commission (SEC)

All responses are requested by October 28, 2015

Summary of SEC Response:

Thank you for the opportunity to participate in the Internal Use Software Task Force. We concur with the Exposure Draft for a proposed Federal Financial Accounting Technical Release, *Implementation Guidance for Internal Use Software*.

Responses to the individual questions are below.

Q1. In the Clarification of Existing Standards section (paragraphs 10-24), this Technical Release (TR) considers the software development terms and practices that reporting entities utilize currently and helps clarify the standards in light of those terms and practices. Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.

SEC Response: Yes, we agree with the clarification and the new concepts.

Q2. In the Guidance on Applying SFFAS 10 to Certain New IUS Developments section (paragraphs 25-33), this TR introduces new terms and defines them in light of the application of this guidance. Do you agree that the definitions reflect typical current new software development items and the associated guidance is reasonable? If not, please explain your reason.

SEC Response: Yes, we agree that the definitions reflect typical current new software development items and that the associated guidance is reasonable.

Q3. In Appendix B starting on page 16, this TR provides two tables illustrating business events and deliverables which agencies may see within a software development life-cycle and some common agency practice examples to assist entity management in applying the principles described throughout the TR. Do you think that both illustration tables will help agencies? If not, please explain your reason.

SEC Response: Yes, we agree that both illustration tables will help agencies.

Q4. Are there additional common issues or illustrations across agencies that should be considered? If so, what are they, and how would you describe them?

SEC Response: We are not aware of any additional issues or illustrations that should be considered.



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October 13, 2015

Ms. Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mailstop 6H19
Washington, DC 20548

RE: Proposed Federal Financial Accounting Technical Release, *Implementation Guidance for Internal Use Software*

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Federal Financial Accounting Technical Release (TR), *Implementation Guidance for Internal Use Software* – the exposure draft (ED). We recognize the Accounting and Auditing Policy Committee's (AAPC) efforts to develop this technical release based on its mission to assist the federal government in improving financial reporting by timely identifying, discussing, and recommending solutions to accounting issues within the framework of existing authoritative literature. We generally agree with clarification and new concepts contained in paragraphs 11-25 (Applying Existing Standards to Current Development Models) and the new software development methods and associated guidance contained in paragraphs 26-34 (Guidance on Applying SFFAS 10 to Certain New IUS Developments). However, we believe that in a few instances the guidance contained in the ED conflicts with Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*, or where the guidance, as stated, is not clear. Therefore, we have the following comments and suggested revisions.

1. Paragraph 9 of the ED states that paragraphs 12, 13, 14, 17, and 18 of TR 5, *Implementation Guidance on Statement of Federal Financial Accounting Standards 10*, are rescinded. TR 5 contains six questions regarding the implementation of SFFAS 10. We believe that the concepts included in the responses for questions 1, 2, 4, and 6 (paragraphs 5-8, 12-14, and 17-18) from TR 5 are incorporated in the ED. Because TR 5 and the ED have similar titles and four of the six questions included in TR 5 are also addressed in the ED, we recommend that the ED supersede TR 5 in its entirety. We also recommend that the guidance included with questions 3 and 5 from TR 5 be evaluated for continuing relevance and, if appropriate, incorporated into the ED.
2. Paragraph 10 of the ED suggests that research and development and integrated software are within the scope of internal use software (IUS), as defined in SFFAS 10, but are excluded from this ED. However, these topics are already excluded from the scope of SFFAS 10. Software research and development is accounted for under SFFAS 8, *Supplementary Stewardship Reporting*, as noted in the Basis for Conclusions (paragraph 40) of SFFAS 10 and integrated software is accounted for under SFFAS 6, *Accounting for Property, Plant, and Equipment*, as noted in paragraph 22 of SFFAS 10. Therefore, to avoid confusion regarding the scope of the ED, as defined in paragraph 10, we recommend the following adjustment (deleted content struck-through):

Ms. Wendy M. Payne
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10. This TR applies to all internal use software that meet the definition of IUS as described in SFFAS 10, ~~except for the following:~~

- a. ~~Software to be used in research and development where the software will not have an alternate future use, and~~
- b. ~~Integrated software (SFFAS 10 paragraph 22) unless the software is developed separately and could be installed on a number of different general property, plant, and equipment (PP&E) assets at different times.⁴~~

3. Paragraph 12 of the ED describes the software development phases as defined in SFFAS 10. Paragraph 16 of SFFAS 10 states (emphasis added), “capitalized costs **should** include the full cost (direct and indirect costs) incurred during the software development phase.” However, we believe the terminology used in paragraph 12 of the ED could allow the expensing of those costs that meet the criteria of software development. Therefore, to avoid an unintended change to the standards, we recommend the following adjustment to paragraph 12 (new content underscored; deleted content struck-through):

12. **Development Phases:** SFFAS 10 presents three phases of software development that follow a linear approach to an IUS project: the preliminary design phase, the software development phase, and the post-implementation/operational phase. Generally, It states that costs incurred during the development phase ~~are to~~ **should** be capitalized, while the ~~and~~ costs incurred in other phases ~~are to~~ **should** be expensed. However, software may not always be developed under this linear approach and capitalization decisions absent distinct phases are more difficult. Regardless of timing, the cost incurred for development phase activities, described in paragraphs 11 and 13 of SFFAS 10, should be capitalized regardless of timing, or expensed based on their substance rather than their phase.

4. Paragraph 13 of the ED describes cost estimation techniques that may be developed to trace the costs to outputs in accordance with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*. We believe that it would be useful to also reference TR 15, *Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment, and Allocation*, and state that the guidance contained in TR 15 can be applied to IUS.
5. The second sentence of paragraph 17 of the ED states (emphasis added), “When establishing the capitalization threshold for IUS, the federal entity **should** include both qualitative and quantitative considerations.” The requirements in paragraph 24 (Capitalization Thresholds) of SFFAS 10 reference the importance of establishing capitalization thresholds that avoid understating asset values. Therefore, we believe that the intent of SFFAS 10 paragraph 24 was to consider quantitative matters when establishing capitalization thresholds. However, we also appreciate the importance of qualitative considerations and, therefore to avoid an unintended change to the standards, recommend the following revisions to paragraph 17 (new content underscored; deleted content struck-through):

Capitalization Threshold: SFFAS 10 paragraph 24 states, “Each federal entity should establish its own threshold as well as guidance on applying the threshold to bulk purchases of software programs (e.g., spreadsheets, word-processing programs, etc.) and to modules or components of a total software system.” When establishing the capitalization threshold for IUS, the federal entity should ~~include both qualitative and quantitative considerations~~ consider whether period cost would be distorted or asset values understated by expensing the purchase of such IUS assets. This consideration may include both qualitative and quantitative considerations. Qualitative considerations could be applied to IUS assets that require special management attention because of their importance to the agency mission;

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high development, operating, or maintenance costs; high risk; high return; or their significant role in the administration of agency programs, finances, property, or other resources

6. The first sentence of paragraph 24 of the ED states (emphasis added), “When a **software project** is suspended pending management’s evaluation as to whether to resume or terminate the project, the software development costs may remain capitalized as long as a **reasonable chance**⁸ exists that the software project will eventually be completed and the cost incurred or expected to be incurred meets the capitalization threshold.” The phrase “software project” is not the same terminology that is used in paragraph 31 of SFFAS 10, which uses “developmental software.” In addition, the phrase “reasonable chance” is not defined in FASAB literature and footnote 8 makes reference to the phrase “more likely than not”, which is used in paragraph 31 of SFFAS 10. Therefore, to avoid any confusion that may result from using different terms in the TR and the related SFFAS, we recommend the following revisions to the first sentence of paragraph 24 (new content underscored; deleted content struck-through):

When a developmental software project is suspended pending management’s evaluation as to whether to resume or terminate the project, the software development costs may remain capitalized as long as ~~a reasonable chance⁸ exists~~ it is more likely than not that the developmental software project will eventually be completed and the cost incurred or expected to be incurred meets the capitalization threshold.

7. Paragraph 27 of the ED provides guidance regarding IUS in the cloud computing environment. The guidance addresses accounting by the customer and the developer/owner. As a result, to make the guidance in the paragraph easier to understand, we recommend breaking it into two paragraphs as follows:

27. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses in accordance with the lease criteria stated in SFFAS 5 and SFFAS 6, and as discussed in paragraph 24 of this TR. SFFAS 10 is not applicable to a cloud computing arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license.

27a. The entity that develops and owns the software, platform or infrastructure that is used in the cloud computing arrangement would account for the software development in accordance with SFFAS 10. If the funding to develop cloud computing is shared among entities without clear ownership, the service provider entity that receives funding and is responsible for maintaining the software, platform or infrastructure should account for the software in accordance with SFFAS 10.

In addition, we believe that the guidance provided in the last sentence of paragraph 27 is incomplete. For example, if the funding to develop cloud computing is shared among 5 entities with Entity A being assigned overall responsibility for maintaining the software, platform, or infrastructure, Entity A would account for the cloud computing in accordance with SFFAS 10. However, it is unclear what costs Entity A should capitalize. Would such costs equate to the amount that Entity A funded or would it also include the costs funded by the other 4 entities to capture the full cost of the cloud computing development? To avoid inconsistent application of the guidance, we recommend the following revision to the last sentence of paragraph 27 (new content underscored):

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If the funding to develop cloud computing is shared among entities without clear ownership, the service provider entity that receives funding and is responsible for maintaining the software, platform or infrastructure should account for the software in accordance with SFFAS 10 and the full cost/inter-entity cost requirements of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*.

If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or aenelson@kpmg.com.

Sincerely,

KPMG LLP



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

Dear Ms. Payne:

The Department of Commerce has reviewed the Exposure Draft – *Implementation Guidance on Internal Use Software*, dated September 16, 2015.

Please find enclosed answers to the questions that were asked of respondents. If you have any questions, please contact me at (202) 482-1207 or galston@doc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to be "GTA", is written over the typed name.

Gordon T. Alston
Director of Financial Reporting and Internal Controls

Enclosure

cc: Lisa Casias
Diane Marston
Atisha Burks

DOC Response**FASAB Exposure Draft (September 16, 2015) – *Implementation Guidance on Internal Use Software*****Background (Excerpts from Exposure Draft):*****What is the Board proposing?*****The TR provides implementation guidance regarding:**

- a. The definition of Internal Use Software (IUS), component/module based IUS assets, software development practices including approaches that involve phases, and clarifying IUS recognition, measurement, and disclosure items (such as capitalized cost, capitalization cut off, capitalization threshold, enhancement, impairment, and related matters);
- b. New IUS challenges brought by changes in IUS development practices since the issuance of Statement of Federal Financial Accounting Standards (SFFAS) 10, *Accounting for Internal Use Software (IUS)*; and
- c. Management's role in applying SFFAS 10.

This objective of this guidance is to explain how to apply existing standards to the fast changing IUS environment and help ensure that:

- a. Transactions involving IUS are recorded in accordance with federal accounting standards.
- b. The cost of producing federal financial information, as it relates to capitalization or expense of IUS cost, does not outweigh the benefits derived by the users of the financial information

Request for DOC Response**Questions for Respondents**

Q1. In the Clarification of Existing Standards section (paragraphs 10-24), this Technical Release (TR) considers the software development terms and practices that reporting entities utilize currently and helps clarify the standards in light of those terms and practices.

Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? Why or why not?

Please provide the rationale for your answer.

DOC Response:

DOC agrees with the new concept of the Component Based IUS Asset, which helps put SFFAS paragraph 33 into more perspective, driving the point that assets can have multiple modules/components that are dependent on each other and those modules combined should be treated as one asset. Component Based IUS Asset provides clarity regarding the individual capitalization of modules/components of software which are not interdependent based on when the module begins to provide economic benefit. Often when implementing a new system/software agencies may not “go live” to test each module at the same time, therefore, it is reasonable to begin amortization as each module has completed testing successfully. DOC also agrees with the added clarification of the existing Standards. Software development models can and do vary by agency, so this guidance provides additional information for the new and varied software development methodologies that are available and in use.

Q2. In the Guidance on Applying SFFAS 10 to Certain New IUS Developments section (paragraphs 25-33), this TR introduces new terms and defines them in light of the application of this guidance.

Do you agree that the definitions reflect typical current new software development items and the associated guidance is reasonable? Why or why not?

Please provide the rationale for your answer.

DOC Response:

DOC agrees that the definitions reflect typical current new software items and the guidance is reasonable. Cloud computing and shared services are currently being utilized government wide and within the Department of Commerce. The guidance also includes some of the more popular software development methodologies that have come about due to technological advances that occurred after the initial issuance of SFFAS 10 in 1998. The associated guidance covers areas that are specific to the new methods, such as establishing ownership of an IUS asset when the software is shared or clarifying how iterations relate to SFFAS 10.

Q3. In Appendix B starting on page 16, this TR provides two tables illustrating business events and deliverables which agencies may see within a software development life-cycle and some common agency practice examples to assist entity management in applying the principles described throughout the TR.

Do you think that both illustration tables will help agencies? Why or why not?

Please provide the rationale for your answer.

DOC Response:

Yes, DOC believes that the illustrations provide significantly greater detail for software development teams to determine a clear cut-off between preliminary design, development and post implementation by providing enhanced detail concerning typical deliverables in each phase. Illustrations 1-4 are useful tools which provide practical examples of how to

treat common IUS issues, specifically tracing development cost and defining enhancements to IUS.

Q4. Are there additional common issues or illustrations across agencies that should be considered? If so, what are they, and how would you describe them?

DOC Response:

No concerns or questions at this time.

-----Original Message-----

From: Shiller, Rebecca L

Sent: Friday, October 16, 2015 4:36 PM

To: Wu, Grace Q

Cc: Olewack, Jacqueline L; Plews, James

Subject: RE: IUS Implementation Guide Exposure Draft Issued - Response Remind

Hi Grace,

Attached are the consolidated comments from our organization. Please let Jackie and I know if additional help is needed to clarify and consider/address comments from various organizations.

Thanks so much!

Becca and Jackie

Expos	NSA Comment (Ref paragraph if appropriate)
Q1	<p>Para. 16 and para. 21 are not clear. When should an entity be treating a component/enhancement/module (distinction between the three terms is unclear) as an addition to the existing asset versus a new, separate asset? Currently reads as if the distinction is between components and enhancements; however the terms, along with module, sometimes seem to be used interchangeably. We believe the distinction should be as follows:</p> <p>Does the component/enhancement provide economic benefit through distinct, substantive functionality? Yes - may be treated as a new asset separate and independent from the original asset as stated in par. 16; No - adjust the cost and useful life (if appropriate) of the original asset, as stated in par. 21.</p> <p>In either of the above cases, if multiple components/enhancements are delivered together and are dependent upon each other to function, then those modules/enhancements should be evaluated as one asset (in the case of #1), or as one adjustment to an existing asset (in the case of #2).</p> <p>Additionally, suggest covering material in paras. 16-21 in the following order: Component based IUS asset, Enhancements, Capitalization Threshold.</p> <p>Furthermore, the example used in par. 16 does not apply to the guidance given in this paragraph because a general ledger and sub-ledgers are dependent upon each other; and therefore, the example actually would follow the guidance stated in par. 21 (i.e. they would be grouped together).</p>

	<p>Agree w/ paras. 31-34.</p> <p>Believe that the guidance on Cloud Computing and Shared Services implements new reporting requirements and is not implementation guidance to the existing requirements within SSFAS 10. Additionally, the new requirements set forth for Cloud Computing and Shared Services are too narrow and do not consider all of the components of these types of software and the accounting treatment implications. We suggest removing this guidance from the TR and performing additional research over the construct of clouds so that guidance given is all encompassing.</p> <p>Specific comments include, but are not limited to:</p> <p>Par 27 "If cloud computer arrangement includes a software license..." - is this referring to an Agency purchasing licenses to use a commercially available cloud (e.g. oracle cloud) vice developing an internal cloud -OR- is this referring to licensing use of a developed cloud (i.e. one Agency develops a cloud and then licenses the use of that cloud to other agencies)?</p> <p>Par 27: "If the funding to develop cloud computing is shared among entities without clear ownership, the service provided that [1.] received [the] funding [for] and [2.] is responsible for maintaining..." - are these always the same entity? What if multiple entities receive funding to maintain different components of the cloud? What guidance should be followed if an Agency is developing Cloud Computing software but will not be the owner/maintainer of the software?</p> <p>Par 27: "The entity that develops and owns the software, platform, or infrastructure..." - the platform or infrastructure for the cloud is generally a centrally and remotely located set of hardware components (e.g. servers). Should these be accounted for under SFFAS 6 as General PP&E? Does whoever purchases and maintains these servers have any bearing on the accounting determination for the software development related to the cloud?</p>
Q2	
Q3	No comments.
	<p>Par. 19, last two sentences seem to be contradictory and additional clarification is needed. The first says that more than one capitalization threshold could be established for different components of an agency, but the next sentence states that the thresholds should be implemented across the agency.</p> <p>Was the intent of this para to allow agency to establish different thresholds for components within the property line item; i.e. personal property vs. real property vs. IUS, but that the thresholds need to be implemented across the agency? - OR - is this trying to say that within a Agency, one directorate could have one IUS threshold while another directorate could have another?</p>
Q4	
	<p>Par. 21, in addition to the comments in Q1, this par states that costs "should be amortized over the enhancement's estimated useful life" - is there no relationship to the original software's useful life? Is this guidance assuming that the enhancement is extending the original software's useful life? Perhaps "the greater of the original software or enhancements useful life" is more appropriate?</p>
Q4	
Q4	Paras. 23 & 24: Suggest presenting par 24 before par 23.

	<p>Para. 25 needs additional clarification:</p> <p>The first COTS licenses determination is whether the contract is a financing vehicle; if yes, evaluate for capital vs. operations; if no, does the license meet asset criteria? Separately, perpetual licenses may be purchased at an upfront cost, or a number of perpetual licenses can be purchased at a set prices per year, over a set period of time.</p> <p>Update footnote to read "the cost could be charged as a one-time payment or purchased over a period of time. " Using the term "financed" implies lease.</p> <p>Additionally, what about unlimited rights to purchase perpetual licenses at a set price per year over a set number of years? Do these purchases follow the above guidance for perpetual licenses?</p>
Q4	
Q4	<p>Par. 26, "over the internet" is too specific. Suggest NIST language - "that is provided to a shared pool of configurable computing resources."</p>
Q4	<p>How do Agencies determine if fully amortized software is still actively being used? If it is deemed that software is substantially removed from service, are they removed from the Agency's balance sheet? If they must remain on the balance sheet, how should they be presented? Current guidance implies that they should be documented in both the asset and accumulated accounts on the balance sheet, which leaves a zero net book value asset categorized with assets that do have a value.</p>
Q4	<p>In addition to the response in Question 2 above: A gov't cloud may have multiple entities funding the platform (PaaS), separate from the associated application cloud (SaaS). For example, Agency A maintains the applications (SaaS) structure however individual applications are developed and maintained by various entities. In some instances, Agency A maintains but does not receive the economic benefit of the asset. Suggest removing guidance from this TR and instead creating a working group on cloud / shared service environments to further discuss gov't scenarios.</p>
Misc.	Please change organization for Becca Shiller to "Department of Defense"

From: Osborne, Christopher

Sent: Wednesday, October 21, 2015 3:55 PM

To: FASAB

Cc: Wu, Grace Q; Jones-Peeler, Meshell; Urquhart, Archie; Westermann, Tai-Fang; O'Connor, John; Dickens, Sandy

Subject: EPA Response to FASAB Technical Release Exposure Draft
"Implementation of Guidance for Internal Use Software"

EPA reviewed the Exposure Draft and offers the attached comments.

If you have any questions, please contact me.

Thank you....

Christopher S. Osborne, CPA
Senior Financial Adviser
Office of Financial Management

**EPA Response to the “Implementation Guidance for Internal Use Software”
September 16, 2015**

Questions 1-4 responses:

Q1. EPA agrees with the clarification and the new concepts, such as Component Based IUS Asset.

Q2. EPA agrees that the definitions reflect current new software development items and the associated guidance is reasonable.

Q3. EPA agrees that both illustration tables under Appendix B will assist agencies in applying the principles as described in the technical release (TR).

Q4. No comment.

Additional Comments:

- Page 7, paragraph 13: The Board mentions the full cost (direct and indirect cost) in the exposure draft as costs incurred during the software development phase. EPA would like to see some additional details on full costs highlighted and/or a reference to SFFAS #4 paras. 89-91.

Specifically,

Full Cost

Reporting entities should report the full costs of outputs in general purpose financial reports. The full cost of an output produced by a responsibility segment is the sum of (1) the costs of resources consumed by the segment that directly or indirectly contribute to the output, and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity, and by other reporting entities.

89. This standard states that reporting entities should measure and report the full costs of their outputs in general purpose financial reports. "Outputs" means products and services generated from the consumption of resources. The full cost of a responsibility segment's output is the total amount of resources used to produce the output. This includes direct and indirect costs that contribute to the output, regardless of funding sources. It also includes costs of supporting services provided by other responsibility segments or entities. The standard does not require full cost reporting in federal entities' internal reports or special purpose cost studies. Entity management can decide on a case-by-case basis whether full cost is appropriate and should be used for internal reporting and special purpose cost studies.

Direct Costs

90. Direct costs are costs that can be specifically identified with an output. All direct costs should be included in the full cost of outputs. Typical direct costs in the production of an output include:

- (a) Salaries and other benefits for employees who work directly on the output;
- (b) Materials and supplies used in the work;
- (c) Various costs associated with office space, equipment, facilities, and utilities that are used exclusively to produce the output; and
- (d) Costs of goods or services received from other segments or entities that are used to produce the output (See discussions and explanations in the next section on "Inter-Entity Costs").

Indirect Costs

91. Indirect costs are costs of resources that are jointly or commonly used to produce two or more types of outputs but are not specifically identifiable with any of the outputs. Typical examples of indirect costs include costs of general administrative services, general research and technical support, security, rent, employee health and recreation facilities, and operating and maintenance costs for buildings, equipment, and utilities. There are two levels of indirect costs:

- (a) Indirect costs incurred within a responsibility segment. These indirect costs should be assigned to outputs on a cause-and effect basis, if such an assignment is economically feasible, or through reasonable allocations. (See discussions on cost assignments in the "Costing Methodology" section.)
- (b) Costs of support services that a responsibility segment receives from other segments or entities. The support costs should be first directly traced or assigned to various segments that receive the support services. They should then be assigned to outputs.

- Page 7, paragraph 14, last sentence: Typo noted (in red).....The basis for allocating costs should be consistent with applicable standards and defensible.

From: Meier, Karen C. **On Behalf Of** Krabbe, Carla
Sent: Thursday, October 22, 2015 3:08 PM
To: FASAB
Cc: Krabbe, Carla; Gasparini, Joanne; Dushel, Annette; Silvestri, Mark; Kolb, Kristen; Broglie, Jeffrey; Kettermann, Carrie; Wittman, Shannon; ^DCBFQM OFPO Controls
Subject: SSA Response to Exposure Draft: Implementation Guidance for Internal Use Software

Wendy,

We appreciate the opportunity to comment on the Exposure Draft for the Technical Release entitled, "*Implementation Guidance for Internal Use Software*." SSA has no comments on the Exposure Draft.

Staff may contact Annette Dushel at Annette.Dushel@ssa.gov or (410) 965-0073 with any questions.

Thank you,
Carla Krabbe
Deputy Chief Financial Officer
Social Security Administration

From: Whitaker, Wendy
Sent: Friday, October 23, 2015 10:59 AM
To: Wu, Grace Q
Cc: Nusbaum, Curt
Subject: IUS Exposure Draft Responses Coast Guard and DHS.doc

Grace,

TSA did not have significant comments because we had a hand in the development. However, We have received the responses to the questions from Coast Guard as well as a few other minor comments from DHS. The information is attached.

Wendy

Questions for Respondents

Q1. In the Clarification of Existing Standards section (paragraphs 10-24), this Technical Release (TR) considers the software development terms and practices that reporting entities utilize currently and helps clarify the standards in light of those terms and practices. Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.

A1. In paragraph 15, there should be a clarification as to how the predetermined milestone is applied when an agency has iterative IUS development. The statement “The entity should identify a pre-determined agency milestone such as the go-live or in-service date which is equivalent to a final acceptance test for capitalization cut off purposes” can be interpreted to mean the entity should identify a pre-determined agency milestone for “each” iteration or it could mean that the milestone occurs prior to the implementation of the separate iterations.

Because the interpretation can lead to a difference in cost capitalization, it could lead to misleading financial statements. If both processes are acceptable, then the TR may want to provide language that allows for such; milestones to be applied at each iteration or a milestone that may occur prior to the iteration software development.

The reason for the requested clarification is because at the Coast Guard, several software development projects require iteration software development. Prior to the development of a specific software asset at specific sites, the software must be approved by the board to be connected to the enterprise network. This approval is a milestone that occurs prior to the individual iteration developments and would constitute final acceptance testing and the cutoff of capitalization, thereby excluding the software development costs associated with each iteration of the software at the different sites.

Q2. In the Guidance on Applying SFFAS 10 to Certain New IUS Developments section (paragraphs 25-33), this TR introduces new terms and defines them in light of the application of this guidance. Do you agree that the definitions reflect typical current new software development items and the associated guidance is reasonable? If not, please explain your reason.

A2. I agree that the definitions reflect typical current new software development items and the associated guidance is reasonable.

Q3. In Appendix B starting on page 16, this TR provides two tables illustrating business events and deliverables which agencies may see within a software development life-cycle and some common agency practice examples to assist entity management in applying the principles described throughout the TR. Do you think that both illustration tables will help agencies? If not, please explain your reason.

A3. I believe the tables are helpful. According to the TR, an agency can expand (tailor) upon the business events and deliverables within the tables.

Q4. Are there additional common issues or illustrations across agencies that should be considered? If so, what are they, and how would you describe them?

Questions for Respondents

A4. I believe there should be an illustration for iteration type and module development and the associated capitalization cut-off points, for example, the development of software that adds functionality to operational equipment such as a CG Vessel or Aircraft. In particular, software is developed to integrate cutter sensors to improve mission effectiveness. Once the software is developed, additional development for each “class” of vessels or type of aircraft must be completed prior to implementation onto each particular asset class. The Coast Guard has many types of cutters and implementation of new software on the classes of cutters will vary based upon each cutter classes’ configuration, but could be separated by 5 years or more.

This could be a common issue across other DOD departments, such as Navy, Airforce, Marines, and Army. The Navy has several “classes” of vessels within the Naval fleet. The Airforce has several classes of aircraft, etc. A software system that can integrate operations between different sensors and even different asset classes will require development for each asset or each class of assets. Whereas with a specific cutoff date chosen, such as an Authority to Operate for the initial development, we can interpret the current draft TR to mean we no longer capitalize the cost to further develop the software for each subsequent asset class. An illustration showing capitalization cutoffs for scenarios like this would be beneficial.

Questions for Respondents

Other Technical Release Comments from DHS:

1. Page 6, Paragraph 9 appears to indicate that paragraphs 12, 13, 14, 17 and 18 of TR5 are rescinded (assume upon issuance of TR). A cursory review of the TR5 document disclosed a series of questions and responses. I could not find the paragraphs referenced above.
2. Page 9, Paragraph 26 through Page 12, Paragraph 34 stress new IUS developments and associated technologies. These developments include cloud computing, shared services, agile software development method, and spiral software development method. Consider including examples of business events and deliverables for these software development phases with the illustrations.
3. Pages 19 and 20 provide a common agency practice table. Consider replacing the word "problem" with "challenges." It creates a more positive tone.

Questions for Respondents

Q1. In the Clarification of Existing Standards section (paragraphs 10-24), this Technical Release (TR) considers the software development terms and practices that reporting entities utilize currently and helps clarify the standards in light of those terms and practices. Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.

A1. We agree with the clarification of existing standards and the introduction of new concepts and recommend additional guidance below for your consideration.

IUS Definition: Providing agencies with criteria/examples regarding evaluating ownership of software assets across Federal entities would promote consistency and efficiency as shared services, software licenses, and contractual rights are determining factors of IUS ownership.

Development Phases: Since identifying cost for proper recognition and reporting is a common problem for agencies, recommend expanding this section regarding the emphasis on substance rather than phase and cross referencing to the illustration in sample #1.

Component Based IUS Asset: Since current FASAB language uses the term software project when referring to the amortization of modules or components, the explanatory language is particularly helpful and the use of the term "Component based IUS asset" is more concise as it refers specifically to the term component based IUS assets resulting from software projects. However, it would be consistent if the example provided referenced the term "SDLC project" in lieu of "accounting software system" since the reference is to software projects and Appendix B provides illustrations on business events within a software development life cycle (SDLC).

Q2. In the Guidance on Applying SFFAS 10 to Certain New IUS Developments section (paragraphs 25-33), this TR introduces new terms and defines them in light of the application of this guidance. Do you agree that the definitions reflect typical current new software development items and the associated guidance is reasonable? If not, please explain your reason.

A2. We agree with the definitions of the new IUS Developments in light of the application of this guidance and SFFAS No. 10. We are recommending additional guidance for your consideration below.

Shared Services-We noticed that the concept of outsourcing to commercial Vendors was not specifically mentioned as they can also be a shared services provider. Per OMB M-13-08, OMB will consider the use of commercial shared service providers if they can provide a better value. Assumption is that the Federal entity (customer) would

Questions for Respondents

have a contractual right to take possession of the software during the hosting period and SFFAS 10 would be applicable in this case. Further clarification would be beneficial regarding any IUS implications when outsourcing to commercial shared service providers.

Cloud Computing: It would be beneficial to users to revise the sentence by moving the text pertaining to applicability to precede the first sentence in the paragraph to explain to the reader up front that SFFAS 10 is not applicable to a cloud computer arrangement unless there is a contractual right to the IUS.

- Q3. In Appendix B starting on page 16, this TR provides two tables illustrating business events and deliverables which agencies may see within a software development life-cycle and some common agency practice examples to assist entity management in applying the principles described throughout the TR.**

Do you think that both illustration tables will help agencies? If not, please explain your reason.

- A3. Yes. We reviewed the two tables in Appendix B, and concluded they present beneficial illustration on how agencies can apply the principles described throughout the TR and SFFAS No. 10. For example, Illustration B-1 provides examples of business events and deliverables within a typical SDLC. Agencies can use this illustration to create, evaluate and/or update SDLC policies and procedures.

In another example, Illustration B-2 Sample #3 provides detailed explanations on the significance of an enhancement (briefly described in the Coast Guard policies and procedures) to an existing system. The illustration also provides additional insight on enhancements costs that should be capitalized and expensed.

- Q4. Are there additional common issues or illustrations across agencies that should be considered? If so, what are they, and how would you describe them?**

- A4. Yes. Additional illustrations in Appendix B would enable agencies to understand the implication of existing standards and new IUS concepts as they update their accounting policies and procedures. Although we understand that examples are not all encompassing, additional examples would certainly benefit agencies in light of new technological developments /issued guidance since the last IUS TR publication. We noted that policies and procedures at several agencies do not specifically address software as part of a package of product and services that could result in erroneous expensing of capitalizable costs. For example, IUS on planes, boats, and other equipment may erroneously be expensed instead of capitalized. Another risk is that those costs could be capitalized as part of the equipment rather than be capitalized as IUS. Additionally, providing linkages from the guidance to the illustrations would also be beneficial.

Questions for Respondents

****General Comments:** We suggest additional and specific cross references to applicable SFFAS references and examples throughout the document. Also, enhancing the link from the main paragraph with the topic sentence to subsequent related sub-paragraphs throughout would benefit the reader. For example, 17, 18, and 19 all relate to the topic “Capitalization Threshold” but it would aid the reader if 18 and 19 were changed to 17 b. and 17 c. respectively to provide a succinct linkage.

From: Moore, Scott

Sent: Wednesday, October 28, 2015 12:04 PM

To: FASAB

Cc: Guilford, William E; Sorah, Noah B; Bergin, Christopher C

Subject: Request for Comments on Internal Use Software Technical Release

HUD is pleased to be able to provide a response to FASAB concerning the proposed Technical Release containing implementation guidance for SFFAS 10, *Accounting for Internal Use Software*.

Scott Moore

**Response from the Department of Housing and Urban Development
IUS Implementation Guidance
Questions for Respondents**

- Q1. In the Clarification of Existing Standards section (paragraphs 10-24), this Technical Release (TR) considers the software development terms and practices that reporting entities utilize currently and helps clarify the standards in light of those terms and practices.

Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.

Agree: “For each module or component of a software project, amortization should begin when that module or component has been successfully tested. If the use of a module is dependent on completion of another module(s), the amortization of that module should begin when both that module and the other module(s) have successfully completed testing.”

Most systems are component based, regardless of the methodology followed (waterfall or agile), with pre-identified dependencies, and longitudinal test of the individual modules. It is not uncommon for modules to complete UAT out of sequence, especially when the Agile development method is used.

- Q2. In the Guidance on Applying SFFAS 10 to Certain New IUS Developments section (paragraphs 25-33), this TR introduces new terms and defines them in light of the application of this guidance.

Do you agree that the definitions reflect typical current new software development items and the associated guidance is reasonable? If not, please explain your reason.

Agree: Cloud Computing, Shared Services, Agile and Spiral Software Development Method(s) are not new terms within the IT community. The TR synchronized the phases across all the methodologies, and the application procedures for the accounting for IUS. The TR reflect typical “current software development terms, and the guidance is reasonable, and consistent.

- Q3. In Appendix B starting on page 16, this TR provides two tables illustrating business events and deliverables which agencies may see within a software development life-cycle and some common agency practice examples to assist entity management in applying the principles described throughout the TR.

Do you think that both illustration tables will help agencies? If not, please explain your reason.

Yes: the illustration adds clarity. For example the Preliminary Design Phase, as shown by the illustration highlights activities that are currently outside of our PPM¹ process. Specifically; *Formulation of Alternatives*² would not be considered in the cost (development) of IUS.

- Q4. Are there additional common issues or illustrations across agencies that should be considered? If so, what are they, and how would you describe them?

No: none at this time.

¹ The Department of Housing and Urban Development's (HUD's) Project Planning and Management (PPM) Life Cycle V2.0 provides practical approaches to optimize innovation, minimize schedule and budget risk, and better plan and execute projects.

² OMB Circular A-11 provides more information for alignment of agency IT investments with agency strategic plans.



October 28, 2015

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) is pleased to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Federal Financial Accounting Technical Release (TR), *Implementation Guidance for Internal Use Software*.

The GWSCPA consists of approximately 3,300 members, and the FISC includes nearly 30 GWSCPA members who are active in financial management, accounting, and auditing in the Federal sector. We sincerely appreciate the opportunity by the Board to share our views, and the hard work and dedication by the Board Members and Staff on their contributions to improving federal financial reporting.

Our responses to the ED questions are included below.

Q1. In the Clarification of Existing Standards section (paragraphs 10-25) [corrected], this TR considers the software development terms and practices that reporting entities utilize currently and helps clarify the standards in light of those terms and practices.

Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.

A1. The FISC supports the Board's views presented in paragraphs 10-25. However, we offer the following comments:

- The terms "software project" (paragraphs 23 and 24) and "reasonable chance" (paragraph 24) are not defined in a manner that would enable consistent application. We suggest that the ED expand on the definition of these terms, provide linkage to a definition of these terms within generally accepted accounting principles (GAAP), or replace with terms already defined in GAAP.
- In the second sentence of paragraph 17, the discussion of capitalization thresholds for IUS does not reference the applicable GAAP for determining the quantitative thresholds applicable to capitalization thresholds, nor does it reference the applicable GAAP for evaluating quantitative and qualitative thresholds. Absent these references, the qualitative factors identified in paragraph

17 of the ED, which are derived from the July 2014 version of OMB Circular A-11, may be interpreted by some as more authoritative than intended by the Board.

- In paragraph 23d, “significant cost overruns” is listed as an indicator that a software project may no longer be completed. Such a phase may not provide sufficient enough precision for consistent application across the financial management community. Significant cost overruns could exist and not result in the cancellation or abandonment of a project. The indicator that “the expenditures are neither budgeted nor incurred to fund further development” provides a more persuasive indicator than “significant cost overruns.” Therefore, we suggest that the Board remove “significant cost overruns” as a separate indicator.
- In paragraph 24, the ED does not address how an agency should respond to the scenario if a write-off is performed, but the software project is later recovered and brought to completion.
- In the first sentence of paragraph 25, the ED provides guidance that software licenses with terms of two years or more should be evaluated against capital and operating lease criteria. The second sentence, however, states that the evaluation of a leased perpetual license with an upfront cost should be evaluated to determine if the leased perpetual license is “capitalized or expensed.” We suggest that the ED address whether the perpetual lease should be evaluated against capital or operating lease criteria, and also whether different treatment would be required for leased perpetual licenses without an upfront cost.

Q2. In the Guidance on Applying SFFAS 10 to Certain New IUS Developments section (paragraphs 26 [corrected]-33), this TR introduces new terms and defines them in light of the application of this guidance.

Do you agree that the definitions reflect typical current new software development items and the associated guidance is reasonable? If not, please explain your reason.

A2. The FISC supports the Board’s views presented in paragraphs 26-33.

Q3. In Appendix B starting on page 15 [corrected], this TR provides two tables illustrating business events and deliverables which agencies may see within a software development life-cycle and some common agency practice examples to assist entity management in applying the principles described throughout the TR.

Do you think that both illustration tables will help agencies? If not, please explain your reason.

A3. The FISC recommends that the terms included in the “typical deliverables” column be referenced to an authoritative source that provides a definition or industry-standard description of each item. Absent such a reference, agencies may not be able to take full advantage of the information presented in these two tables if different terminology is used.

Q4. Are there additional common issues or illustrations across agencies that should be considered? If so, what are they, and how would you describe them?

A4. As a future project or included within this effort, the FISC suggests that the Board consider the following matters:

- Allowable cost methodologies when direct tracing is not available: Additional guidance could be useful to the financial management community on allowable cost allocation methodologies for newer technology applications when an agency uses a “cause-and-effect” or a “reasonable and consistent” approach (SFFAS 4, paragraph 124, and ED paragraph 13), or when an agency’s investment in legacy IUS does not rise to the level of discrete presentation in budget estimates.
- Identification of discrete pieces of IUS or COTS for inventory purposes: Although certain guidance is available in SFFAS No. 35, and Technical Release Nos. 13 and 15, some additional guidance could be useful to the financial management community on defining the appropriate application of GAAP in the following scenarios:
 - One piece of discrete software with multiple users;
 - Multiple instances of the same software implanted with different configurations at multiple sites;
 - Software with a site-specific license, and the impact of multiple users;
 - Software with an enterprise-wide license, and the impact of multiple users;
 - Software with individual licenses, but combined within a bulk purchase; and
 - Capital upgrades on all above software types.

Other Comments:

1. In paragraph 7, we suggest that the references to SFFAS 6 and SFFAS 5 be presented in chronological order.
2. We suggest that the ED adopt a consistent terminology to describe a reporting entity for which this guidance would apply. Throughout the ED, a reporting entity is described in various ways, such as “entity” (paragraph 1), “reporting entity” (paragraph 1), “agency” (paragraph 5), “federal entity” (paragraph 11), “customer/service provider entity” (paragraph 27), “organization” (paragraph 28), “federal agency” (paragraph A1), and “federal community” (paragraph A1).
3. In paragraph A6, we suggest that the word “its” be replaced with “their” in the first line. The paragraph would then read, “In reaching ~~its~~ their conclusion, the subgroups recognized . . .”
4. In Illustration B-1 (page 15-17), the business events are not presented in a parallel fashion. Most business events are framed as an action taken by management (e.g., “identify . . . establish . . . develop . . . update” in the “Establish Project Governance” phase on page 16), whereas other sections are framed as a product or output (e.g., “information preservation; configuration management and control; media sanitization; hardware and software disposal” in the “Retirement of Software” phase on page 18). We suggest that the business events be framed in a consistent fashion.
5. In Illustration B-1 (page 15), under “Major Deliverables” in the “Formation of Alternatives” phase, the final deliverable (“alternative of analysis”) is not clear.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

A handwritten signature in black ink, appearing to read "Andrew Lewis". The signature is fluid and cursive, with a stylized "A" and "L".

Andrew C. Lewis
FISC Chair

-----Original Message-----

From: Sykes, Brian A CIV OSD OUSD C (US)

Sent: Wednesday, October 28, 2015 6:37 PM

To: Wu, Grace Q

Cc: Payne, Wendolyn M; Batchelor, Melissa L; Easton, Mark E SES OSD OUSD C (US); Jenkins, Alaleh A SES OSD OUSD C (US); Kadiri, Mobola A CIV OSD OUSD C (US); Dees, Patricia W J (Pat) CIV OSD OUSD C (US); Burns, Mark R CTR OSD OUSD C (US); Sones, Jimaye H SES DISA DD (US); Evans, Gary J CIV OSD DOD CIO (US)

Subject: DoD Response: IUS Technical Release Questions

Ms. Wu-

Per FASAB's request, and on behalf of Mr. Easton, DoD DCFO, attached is the DoD response to FASAB's questions regarding the IUS Exposure Draft.

Please let me know if you have any questions.

Sincerely,

Brian A. Sykes, CPA

Staff Accountant

Office of the Undersecretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Directorate

IUS Implementation Guidance

Questions for Respondents

- Q1. In the Clarification of Existing Standards section (paragraphs 10-24), this Technical Release (TR) considers the software development terms and practices that reporting entities utilize currently and helps clarify the standards in light of those terms and practices.

Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.

DoD Response: The Department of Defense concurs with the Clarification of Existing Standards section of the proposed Technical Release.

Admin Note: The section referenced in the question starts at paragraph 11, not paragraph 10, and ends at paragraph 25, not paragraph 24.

- Q2. In the Guidance on Applying SFFAS 10 to Certain New IUS Developments section (paragraphs 25-33), this TR introduces new terms and defines them in light of the application of this guidance.

Do you agree that the definitions reflect typical current new software development items and the associated guidance is reasonable? If not, please explain your reason.

DoD Response: The Department of Defense concurs with the Guidance on Applying SFFAS 10 section of the proposed Technical Release.

Admin Note: The section referenced in the question starts at paragraph 26, not paragraph 25, and ends at paragraph 34, not paragraph 33.

- Q3. In Appendix B starting on page 16, this TR provides two tables illustrating business events and deliverables which agencies may see within a software development life-cycle and some common agency practice examples to assist entity management in applying the principles described throughout the TR.

Do you think that both illustration tables will help agencies? If not, please explain your reason.

DoD Response: The Department of Defense concurs with the presentation of both tables and agrees that it will assist agencies in applying the TR principles.

- Q4. Are there additional common issues or illustrations across agencies that should be considered? If so, what are they, and how would you describe them?

DoD Response: No other common issues to be considered at this time. The FASAB TR Working Group was very accommodating in making last-minute changes based on new developments identified by the DoD while the TR was being developed.

Federal Financial Accounting Technical Release –
Implementation Guidance for Internal Use Software

NRCS response – Michael Moore

Question 1,

In the Clarification of Existing Standards section (paragraphs 10-24), this Technical Release (TR) considers the software development terms and practices that reporting entities utilize currently and helps clarify the standards in light of those terms and practices. Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.

yes with one exception

Page 7, paragraph 16: the accounting standard and TT indicate that the amortization should commence when the modules/components have successfully been tested. The general rule for PPE is that the deployment or in service date is the basis for the start of amortization / depreciation. And there is no discussion or indication as to why there is this shift from deployment/in service date to the point of the successfully tested date.

Or is successfully tested synonymous with being placed in service?

Question 2

In the Guidance on Applying SFFAS 10 to Certain New IUS Developments section (paragraphs 25-33), this TR introduces new terms and defines them in light of the application of this guidance. Do you agree that the definitions reflect typical current new software development items and the associated guidance is reasonable? If not, please explain your reason.

Page 9, paragraph 25: suggests that software licenses should be evaluated against lease criteria per SFFAS 5 and SFFAS 6. It may be

advantageous to separate the cost of the software licenses from the IUS asset, especially in the length of time for the licenses is not in sync with the useful life of the software. But maybe this thought could be developed and presented with a little more information.

One concern with using the lease criteria is “how would the agency determine the FMV of the software licenses to compare with the NPV of the payments to the vendor/lessor?” With real property and certain personal property there are means to obtain a FMV, but not so sure how easy / difficult it would be to obtain FMV for software licenses.

This would suggest that the cost of the licenses would be separate from the agency’s/lessee’s IUS costs, and would be reported as either a capital asset over the term of the licenses or the expected life of the licenses, or an operating expense for the appropriate fiscal years.

Another option to consider is to account for the software licenses as a prepaid cost, if material, or as a capitalized personal property asset if the per unit cost exceeds the capitalization threshold or meets bulk purchase requirements.

Question 3

In Appendix B starting on page 16, this TR provides two tables illustrating business events and deliverables which agencies may see within a software development life-cycle and some common agency practice examples to assist entity management in applying the principles described throughout the TR. Do you think that both illustration tables will help agencies? If not, please explain your reason.

I think both tables are helpful.

Question 4

Are there additional common issues or illustrations across agencies that should be considered? If so, what are they, and how would you describe them?

1. Using the example in paragraph 16, when we have a baseline software app, such as a G/L, which has the a/p and a/r subsidiaries as complimentary components that could be deployed in 3 different periods/years; what are the thoughts on the useful lives of the 3 apps? Should the useful lives of the complimentary apps end on the same date as G/L app? Or should they each have their own useful life? I would be interested to hear their thoughts, but not necessarily tied to their opinions on the question.
2. Our agency generally uses a 5 year useful life for its software (default); it would be interesting to know and understand how other agencies determine the useful lives for their software apps.

From: Katherine Reed

Sent: Wednesday, October 28, 2015 6:32 PM

To: Wu, Grace Q; Payne, Wendolyn M; FASAB

Subject: RE: IUS Implementation Guide Exposure Draft Issued - Response Due Tomorrow

Grace:

Attached is an advanced copy of the ODNI ADNI/CFO comments on the subject exposure draft. A formal letter transmitting these documents will be sent tomorrow. I just wanted to make sure you got them by the due date. Thanks so much for the opportunity to comment. Let me know if you have any questions.

Katherine A. Reed

Chief, Financial Improvement and Audit Readiness

Financial Management Division (FMD)

Chief Financial Officer

ODNI

DRAFT FASAB Implementation Guidance
Internal Use Software
Response to Questions

Question No.	Respondent	Question Posed to Respondent	Response from Respondent
Q1.	ADNI/CFO	In the Clarification of Existing Standards section (paragraphs 10-24), this Technical Release (TR) considers the software development terms and practices that reporting entities utilize currently and helps clarify the standards in light of those terms and practices. Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.	Para. 16 and para. 21 are not clear. When should an entity be treating an component/enhancement/module (distinction between the three terms is unclear) as an addition to the existing asset versus as a new, separate asset. Currently reads as if the distinction is between components and enhancement, however the terms, along with module, sometimes seem to be used interchangeably. We believe the distinction should be as follows: 1. Does the competent / enhancement provide economic benefit through distinct, substantive functionality? Yes - may be treated as new asset separate and independent from the original asset, as stated in par. 16. No - adjust the cost and useful life (if appropriate) of the original asset, as stated in par. 21. 2. In either of the above cases, if multiple components / enhancements are delivered together and are dependent upon each other to function, then those modules / enhancements should be evaluated as one asset (in the case of #1), or as one adjustment to an existing asset (in the case of #2). 3. Additionally, suggest covering material in paras. 16-21 in the following order: Component Based IUS Asset, Enhancements, Capitalization Threshold. 4. Furthermore, the example used in par. 16 does not apply to the guidance given in this paragraph because a general ledger and sub-ledgers are dependent upon each other, and therefore the example actually would follow the guidance stated in par. 21 (i.e. they would be grouped together).
Q2.	ADNI/CFO	In the Guidance on Applying SFFAS 10 to Certain New IUS Developments section (paragraphs 25-33), this TR introduces new terms and defines them in light of the application of this guidance. Do you agree that the definitions reflect typical current new software development items and the associated guidance is reasonable? If not, please explain your reason.	Agree with paras. 31-34. Believe that the guidance on Cloud Computing and Shared Services implements new reporting requirements and is not implementation guidance to the existing requirements within SSFAS 10. Additionally, the new requirements set forth for Cloud Computing and Shared Services are too narrow and do not consider all of the components of these types of software and the accounting treatment implications. We suggest removing this guidance for the TR and performing additional research over the construct of clouds so that the guidance given is all encompassing. Specific comments include, but are not limited to: Par 27 "If cloud computing arrangement includes a software license..." - is this referring to an agency purchasing licenses to use a commercially available cloud (i.e. oracle cloud) vice developing an internal cloud -OR- is this referring to licensing use of a developed cloud (i.e. one agency develops a cloud and then licenses the use of that cloud to other agencies)? Par 27: "If the funding to develop cloud computing is shared among entities without clear ownership, the service provided that [1.] receives [the] funding [for] and [2.] is responsible for maintaining..." - are these always the same entity? What if multiple entities receive funding to maintain different components of the cloud? What guidance should be followed if an Agency is developing Cloud Computing software but will not be the owner/maintainer of the software. Par 27: "The entity that develops and owns the software, platform or infrastructure..." - the platform or infrastructure for the cloud is generally a centrally and remotely located set of hardware components (i.e. servers). Should these be accounted for under SFFAS 6 as General PP&E? Does whoever purchases and maintains these servers have any bearing on the accounting determination for the software development related to the cloud?

Question No.	Respondent	Question Posed to Respondent	Response from Respondent
Q3.	ADNI/CFO	In Appendix B starting on page 16, this TR provides two tables illustrating business events and deliverables which agencies may see within a software development life-cycle and some common agency practice examples to assist entity management in applying the principles described throughout the TR. Do you think that both illustration tables will help agencies? If not, please explain your reason.	No comments.
Q4.	ADNI/CFO	Are there additional common issues or illustrations across agencies that should be considered? If so, what are they, and how would you describe them?	Par. 19, last two sentences seem to be contradictory and additional clarification is needed. The first says that more than one capitalization threshold could be established for different components of an agency, but then the next sentence states that the thresholds should be implemented across the agency.
Q1.	ADNI/CFO	In the Clarification of Existing Standards section (paragraphs 10-24), this Technical Release (TR) considers the software development terms and practices that reporting entities utilize currently and helps clarify the standards in light of those terms and practices. Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.	<p>Additional clarification provided by the Federal Financial Accounting Technical Release, Implementation Guidance for Internal Use Software will assist Federal Agencies in accounting for challenging software development practices. We would recommend the addition of practical examples to include:</p> <ul style="list-style-type: none"> • Provide guidance that supports management flexibility and decision criteria/considerations to determine whether assets should be accounted for individually or as an integrated asset; • Enhance the explanation of cost assignment and allocations to drive valuation for bulk software purchases, component based assets, or a single asset deployed at multiple sites; and • Clarify nuances of software modification for significant additional capabilities; current examples focus on functions, features and capability; however clarification could be expanded to distinguish enhancements within the same function, feature or capability from operations and maintenance upgrades. <p>For instance, using the footnote 4 example from page 6 - if an original function of the anti-missile software is to detect signals, and a modification is developed to detect a new type of signal that it was previously unable to detect would that be considered a significant additional capability under this implementation guidance?</p>
Q2.	ADNI/CFO	In the Guidance on Applying SFFAS 10 to Certain New IUS Developments section (paragraphs 25-33), this TR introduces new terms and defines them in light of the application of this guidance. Do you agree that the definitions reflect typical current new software development items and the associated guidance is reasonable? If not, please explain your reason.	The definitions included in this section reflect new software development methods and sources; however, we believe that there may be a potential consistency issue with respect for the accounting related to shared services as compared to other procurement methods for software with a similar organizational benefit, useful life and cost. We further, recommend inclusion of requirements to document who is responsible for accounting for software in interagency shared service arrangements to reduce risk associated with duplicative capitalization or lack of capitalization.
Q3.	ADNI/CFO	In Appendix B starting on page 16, this TR provides two tables illustrating business events and deliverables which agencies may see within a software development life-cycle and some common agency practice examples to assist entity management in applying the principles described throughout the TR. Do you think that both illustration tables will help agencies? If not, please explain your reason.	The illustrative tables in Appendix B will assist Agencies in improving accounting consistency for the business events and deliverables; however we recommend emphasizing the importance of the illustrative nature of business events and deliverables that may or may not be employed by Agency processes during the software lifecycle. Additionally, we recommend enhancing the linkage of the "Rapid Development and Risk Evaluation activities" to include a description of how these activities contribute to the form and location suitable for use.
Q4.	ADNI/CFO	Are there additional common issues or illustrations across agencies that should be considered? If so, what are they, and how would you describe them?	Recommendations for consideration to enhance and improve specific guidance sections are included within the IUSComments Matrix.