



October 29, 2015

Memorandum

To: Members of the Committee

From: Grace Wu, Project Manager

Through: Wendy M. Payne, Executive Director

Subject: Implementation Guidance for Internal Use Software Comment Letters  
Received through November 12<sup>1</sup>

**MEETING OBJECTIVE**

To review responses to the exposure draft, *Implementation Guidance for Internal Use Software* and make decisions on issues raised.

**BRIEFING MATERIAL**

**Staff Summary:** This memorandum provides the staff summary. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters. The summary presents:

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**Attachment 1** provides the full text of each comment letter.

**Attachment 2** provides the original Exposure Draft with suggested edits based upon comments received and staff recommendations.

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

## BACKGROUND

### SUMMARY OF OUTREACH EFFORTS

The exposure draft, *Implementation Guidance for Internal Use Software*, was issued September 16, 2015 with comments requested by October 28, 2015. Upon release of the exposure draft, notices and press releases were provided to:

- a) The Federal Register;
- b) *FASAB News*;
- c) *The Journal of Accountancy*, *the CPA Journal*, *Government Executive*, and *the CPA Letter*;
- d) The Financial Statement Audit Network; and
- e) Committees of professional associations generally commenting on exposure drafts in the past.

To encourage responses, a reminder notice was provided on October 22, 2015 to our Listserv.

### RESULT

As of November 12, we have received 12 responses from the following sources:

	<b>FEDERAL (Internal)</b>	<b>NON-FEDERAL (External)</b>
Users, academics, others		1
Auditors		1
Preparers and financial managers	10	

The full text of the comment letters is provided as Attachment 1. Attachment 1 includes a table of contents and identifies respondents in the order their responses were received. The comment letters appear as an attachment to facilitate compilation and pagination. However, staff encourages you to read the letters in their entirety before you read the staff summary below.

## STAFF SUMMARY OF RESPONSES – Table A: Tally Of Responses By Question

### A. Tally of Responses By Question

QUESTION	YES/AGREE	NO/DISAGREE	NO COMMENT
<p><b>Question 1:</b> 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.</p> <p><b>Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.</b></p>	9		3
<p><b>Question 2:</b> 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.</p> <p><b>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.</b></p>	9		3
<p><b>Question 3:</b> 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.</p> <p><b>Do you think that both illustration tables will help</b></p>	8		4

**STAFF SUMMARY OF RESPONSES – Table A: Tally Of Responses By Question**

QUESTION	YES/AGREE	NO/DISAGREE	NO COMMENT
<b>agencies? If not, please explain your reason.</b>			
<b>Question 4:</b> Are there additional common issues or illustrations across agencies that should be considered?  <b>If so, what are they, and how would you describe them?</b>	6 provided additional comments for potential consideration		

## STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

### B. Quick Table of Responses By Question

RESPONDENT	<p><b>Question 1:</b> 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.</p> <p><b>Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.</b></p>
#1 DOC	Agree
#2 DHS	Agree (but provided several comments)
#3 DoD NSA	Did not specify agreement or disagreement (but provided several comments)
#4 DoD OCFO	Agree
#5 DoD ODNI	Did not specify agreement or disagreement (but provided several comments)
#6 EPA	Agree
#7 GWSCPA	Agree
#8 HUD	Agree
#9 KPMG	Agree (but provided several comments)
#10 NRCS	Agree (but provided one comment)
#11 SEC	Agree

## STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

RESPONDENT	<b>Question 1:</b> 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.  <b>Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.</b>
#12 SSA	Did not specify agreement or disagreement

## STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

RESPONDENT	<p><b>Question 2:</b> 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.</p> <p><b>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.</b></p>
#1 DOC	Agree
#2 DHS	Agree (but provided several comments)
#3 DoD NSA	Did not specify agreement or disagreement (but provided several comments)
#4 DoD OCFO	Agree
#5 DoD ODNI	Agree (but provided several comments)
#6 EPA	Agree
#7 GWSCPA	Agree
#8 HUD	Agree
#9 KPMG	Agree (but provided several comments)
#10 NRCS	Did not specify agreement or disagreement (but provided one comment)
#11 SEC	Agree
#12 SSA	Did not specify agreement or disagreement

## STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

RESPONDENT	<p><b>Question 3:</b> 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.</p> <p><b>Do you think that both illustration tables will help agencies? If not, please explain your reason.</b></p>
#1 DOC	Agree
#2 DHS	Agree (but provided several comments)
#3 DoD NSA	No comment
#4 DoD OCFO	Agree
#5 DoD ODNI	No comment
#6 EPA	Agree
#7 GWSCPA	Agree (but provided one comment)
#8 HUD	Agree
#9 KPMG	No Comment
#10 NRCS	Agree
#11 SEC	Agree
#12 SSA	Did not specify agreement or disagreement



## STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

RESPONDENT	<b>Question 4:</b> Are there additional common issues or illustrations across agencies that should be considered?  <b>If so, what are they, and how would you describe them?</b>
#1 DOC	No comment
#2 DHS	Several topic suggestions
#3 DoD NSA	Several topic suggestions
#4 DoD OCFO	No comment
#5 DoD ODNI	Several topic suggestions
#6 EPA	One topic suggestion
#7 GWSCPA	Several topic suggestions
#8 HUD	No comment
#9 KPMG	No comment
#10 NRCS	Several topic suggestions
#11 SEC	No comment
#12 SSA	No comment

## STAFF SUMMARY OF RESPONSES – Table C: Full Text of Answers and Comments by Question

### C. Major Answers and Comments by Question and by Respondent

Below table extracted the major responses which potentially affect the content of the exposure draft. As such, not every comment from the respondent was included in the table. See minor/editorial or agency policy related comments at each letter listed in attachment 1 *Comment Letters*.

<p><b>Question 1:</b> 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.</p> <p><b>Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.</b></p>	
#1 EPA	<p>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.</p> <p><i>Staff Response: Added reference to SFFAS #4.</i></p>
#2 GWSCPA	<p>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.</p> <p><i>Staff Response: Changed to “more likely than not” to be consistent with SFFAS 10 language. No change related to the definition of “software project.”</i></p>
#3 GWSCPA	<p>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</p>

## STAFF SUMMARY OF RESPONSES – Table C

	<p>derived from the July 2014 version of OMB Circular A-11, may be interpreted by some as more authoritative than intended by the Board.</p> <p><i>Staff Response: Reference to SFFAC 2 was added to emphasize the quantitative and qualitative considerations.</i></p>
#4 GWSCPA	<p>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.</p> <p><i>Staff Response: Agreed. “Significant cost overruns” was deleted.</i></p>
#5 GWSCPA	<p>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.</p> <p><i>Staff Response: Write-off recovery is not a specific issue only related to software, it would be a common practice based on each agency’s policy. As such it is not addressed specifically in this implementation guide.</i></p>
#6 GWSCPA	<p>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.</p>

## STAFF SUMMARY OF RESPONSES – Table C

	<i>Staff Response: language was modified to address above concern.</i>
#7 KPMG	<p>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):</p> <p style="padding-left: 40px;"><del>10. This TR applies to all internal use software that meet the definition of IUS as described in SFFAS 10., except for the following:</del></p> <p style="padding-left: 40px;"><del>a. Software to be used in research and development where the software will not have an alternate future use, and</del></p> <p style="padding-left: 40px;"><del>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&amp;E) assets at different times.</del></p> <p><i>Staff Response: SFFAS 10 &amp; SFFAS 8 only addresses stewardship investment aspects of R&amp;D (and not decisions to capitalize or expense costs), this implementation guide addresses treatment of IUS related R&amp;D per request from DoD and guidance for distinguishing software related to PP&amp;E but not qualifying as integrated software. The scope statement was revised to positively state what is covered by the TR rather than what is excluded.</i></p>
#8 KPMG	<p>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</p>

## STAFF SUMMARY OF RESPONSES – Table C

	<p>guidance contained in TR 15 can be applied to IUS.</p> <p><i>Staff Response: The implementation guide language is the same as TR15, as such no need to reference again.</i></p>
#9 KPMG	<p>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):</p> <p>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 <del>include both qualitative and quantitative considerations</del> <u>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.</u> Qualitative considerations could be applied to IUS assets that require special management attention because of their importance to the agency mission; 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.</p> <p><i>Staff Response: Added reference to SFFAC 2 to emphasize the qualitative and quantitative concept when establishing a threshold.</i></p>

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#10 DoD NRCS	<p>Page 7, paragraph 16: the accounting standard and TR 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.</p> <p>Or is successfully tested synonymous with being placed in service?</p> <p><i>Staff Response: What stated in this implementation guide that “the amortization should commence when the modules/components have successfully been tested.” is a SFFAS 10 reference not a new concept. See implementation guide Appendix B-2 for agency common amortization examples on this area.</i></p>
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<p><b>Question 2:</b> 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.</p> <p><b>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.</b></p>	
#1 DHS	<p>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 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.</p> <p><i>Staff Response: OMB reference was added.</i></p>
#2 NSA	<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</p>

## STAFF SUMMARY OF RESPONSES – Table C

	<p>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><i>Staff Response: As pointed out in the implementation guide paragraph 5: “This TR introduces new IUS development terms and defines them to aid in applying existing standards. The definitions provided are not all encompassing but are included to promote greater understanding, and more consistent application and implementation of the standards. The same principles used to develop the guidance on the current IUS development practices could be used for future IUS development practices.”</i></p>
#3 KPMG	<p>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):</p> <p>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 <u>and the full cost/inter-entity cost requirements of SFFAS 4, Managerial Cost Accounting Standards and Concepts.</u></p> <p><i>Staff Response: Change was made accordingly.</i></p>

<p><b>Question 3:</b> 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</p>	
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examples to assist entity management in applying the principles described throughout the TR.	
<b>Do you think that both illustration tables will help agencies? If not, please explain your reason.</b>	
#1 GWSCPA	<p>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.</p> <p><i>Staff Response: Those were agency contributed examples as such no authoritative source can be referenced.</i></p>
# 2 DoD DQNI	<p>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.</p> <p><i>Staff Response: The nature of the business is discussed in the implementation guide as stated: “The table may be used as a sample guide for categorizing business events and deliverables during IUS phases, but it is not intended to be comprehensive. Each agency is responsible for developing policies and procedures that are appropriate for its specific environment and needs and may differ in content and order from the table below.” In addition, it is up to agency to set up a policy to identify “Rapid Development and Risk Evaluation activities” since the implementation guide is helping agency on accounting related policy and it is not an operating guidance.</i></p>



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<b>Question 4:</b> Are there additional common issues or illustrations across agencies that should be considered?  <b>If so, what are they, and how would you describe them?</b>	
#1 DHS	<p>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.</p> <p><i>Staff Response: 1. Appendix B were the most samples could be collected during the implementation guide working group and draft period. 2. Integrated software concept was covered in TR 5 and now moved to this implementation guide paragraph 16.</i></p>
#2 GWSCPA	<p>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.</p> <p><i>Staff Response: Could be a future project topic.</i></p>
#3 GWSCPA	<p>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:</p>

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	<ul style="list-style-type: none"> <li>– One piece of discrete software with multiple users;</li> <li>– Multiple instances of the same software implanted with different configurations at multiple sites;</li> <li>– Software with a site-specific license, and the impact of multiple users;</li> <li>– Software with an enterprise-wide license, and the impact of multiple users;</li> <li>– Software with individual licenses, but combined within a bulk purchase; and</li> <li>– Capital upgrades on all above software types.</li> </ul> <p><i>Staff Response: Could be a future project topic.</i></p>
#4 NRCS	<p>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.</p> <p><i>Staff Response: This is up to agency to set up its own policy based on SFFAS 10 and this implementation guide.</i></p>
# 5 NRCS	<p>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.</p> <p><i>Staff Response: This is up to agency to set up its own policy based on SFFAS 10 and this implementation guide.</i></p>

**STAFF SUMMARY OF RESPONSES – Table D: Listing of Additional Comments from Respondents**

**D. Listing Of Additional Comments from Respondents**

<b><u>Respondent</u></b>	<b><u>Comment</u></b>
#1 KPMG	<p>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.</p> <p><i>Staff Response: Two paragraphs from TR 5 were moved to this implementation guide and TR 5 was superseded as suggested.</i></p>