



Federal Accounting Standards Advisory Board

December 4, 2015

Memorandum

To: Members of the Board

From: Grace Wu, Project Manager

Through: *Wendy M. Payne*
Wendy M. Payne, Executive Director

Subj: **AAPC Proposed Technical Release 16¹ - Tab H**

OBJECTIVE

The attached proposed Technical Release 16 *Implementation Guidance for Internal Use Software* was approved by the AAPC for release to the FASAB for issuance. The document went through a lengthy review process by the Committee and the FASAB staff. The review process included a 43-day exposure draft comment period.

The next step for the document is to provide the Board with a 45-day review period to gain negative assurance from a majority of the Board. (The text of the AAPC Charter regarding the process for issuing a technical release is attached.)

If you have a concern with the proposed technical release it can be discussed at the December 17, 2015 FASAB meeting. Time is provided on the meeting agenda, but the session will be cancelled unless a member requests time to discuss the document. Please let us know as soon as possible if you would like to discuss the technical release at the December 17, 2015 meeting.

If you object to the release of the technical release please notify us of your objection by January 18, 2016. If a majority of the Board or a federal member does not object to the technical release by January 18, 2016 it will be released as final by January 19, 2016.

If you or members of your staff have any questions, please contact me by telephone at 202-512-7377 or by email at WuG@fasab.gov.

¹ 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.

BOARD MATERIAL

☐ Staff Memo

☐ Attachments –

- Attachment 1 – Proposed Technical Release 16, *Implementation Guidance for Internal Use Software*
- Attachment 2 – Staff Analysis of Exposure Draft Responses
- Attachment 3 – Full Text of Comment Letters Received
- Attachment 4 – Original Exposure Draft

BACKGROUND

The purpose of proposed Technical Release 16, *Implementation Guidance for Internal Use Software*, is to assist reporting entities in implementing Statement of Federal Financial Accounting Standards (SFFAS) 10, *Accounting for Internal Use Software*. Since FASAB issued SFFAS 10 in 1998, software development practices have changed dramatically and reporting entities have experienced challenges applying the standards given the new terminology and techniques that have evolved. The TR provides implementation guidance regarding:

- a. The definition of 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 SFFAS 10; and
- c. Management's role in applying SFFAS 10.

The objective of this guidance is to explain how to apply existing standards to the fast changing Internal Use Software (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.

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Excerpts from the Charter of the Accounting and Auditing Policy Committee (as amended May 15, 2006):

Authoritative Guidance. Section III. I (3) of FASAB's Rules of Procedure authorizes AAPC to issue technical releases related to existing federal accounting standards. Technical releases are intended to provide guidance on the specific application of Statements of Federal Financial Accounting Standards (SFFASs), Interpretations of SFFASs, and Technical Bulletins. AAPC's technical releases are in the third category of authoritative guidance in the Federal GAAP hierarchy as stated in the AICPA's Statement on Auditing Standards 91. AAPC may not amend existing standards or promulgate new standards.

AAPC will refer audit issues to OMB in connection with its responsibility for the Audit Bulletin and to GAO (Government Accountability Office) in connection with its responsibility for GAGAS as appropriate. AAPC may include in the referral its observations on audit issues and take additional steps to facilitate resolution of the issues as it deems appropriate.

Issuance of Guidance. AAPC will submit all proposed technical releases to the FASAB for a 45-day review period. The review period usually will begin when FASAB receives the proposed technical release. However, if a FASAB member requests that a proposed technical release be considered at a Board meeting, the review period will begin the day following the Board meeting. FASAB may also affirmatively approve guidance before the expiration of the 45-day review period.

If a majority of the FASAB or a member representing a FASAB sponsor objects to the proposed technical release during the review period, then it shall be returned to the AAPC for further consideration. If neither a majority of FASAB nor a member representing a FASAB sponsor objects to the proposed technical release during the review period, then it shall become final. The Executive Director of the FASAB shall publish in the Federal Register a notice of the issuance of a final technical release and information on how it may be obtained.



Federal Accounting Standards Advisory Board

IMPLEMENTATION GUIDANCE FOR INTERNAL USE SOFTWARE

Federal Financial Accounting Technical Release 16

January 19, 2015

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Section III. I (3) of FASAB’s Rules of Procedure authorizes the AAPC to issue Technical Releases related to existing federal accounting standards. Technical releases are intended to provide guidance on the specific application of Statements of Federal Financial Accounting Standards (SFFASs), Interpretations of SFFASs, and Technical Bulletins. AAPC’s Technical Releases are in the third category of authoritative guidance in the Federal GAAP hierarchy as stated in the SFFAS 34, The Hierarchy of Generally Accepted Accounting Principles. AAPC may not amend existing standards or promulgate new standards.

Additional background information is available from the FASAB or its website:

- [“Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”](#)
- [“Mission Statement: Federal Accounting Standards Advisory Board”](#), [exposure drafts](#), [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB’s website at: www.fasab.gov.

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The Accounting and Auditing Policy Committee

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the Chief Financial Officers' Council (CFOC), and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) [formally the President's Council on Integrity and Efficiency (PCIE)], as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee established by the Federal Accounting Standards Advisory Board (FASAB). The mission of the FASAB is to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of Federal financial information. The mission of the AAPC is to assist the Federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

The AAPC is intended to address issues that arise in implementation, which are not specifically or fully discussed in Federal accounting and auditing standards. The AAPC's guidance is cleared by FASAB before being published.

Additional background information on the AAPC is available from the FASAB or its website:

- ◆ Charter of the Accounting and Auditing Policy Committee
- ◆ Accounting and Auditing Policy Committee Operating Procedures

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EXECUTIVE SUMMARY

This Technical Release (TR) assists reporting entities in implementing Statement of Federal Financial Accounting Standards (SFFAS) 10, *Accounting for Internal Use Software*. Since FASAB issued SFFAS 10 in 1998, software development practices have changed dramatically and reporting entities have experienced challenges applying the standards given the new terminology and techniques that have evolved. The TR provides implementation guidance regarding:

- a. The definition of 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 SFFAS 10; 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 Internal Use Software (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.

INTRODUCTION

PURPOSE

1. This Technical Release (TR) assists agencies in applying SFFAS 10, *Accounting for Internal Use Software*, to the new software development practices that have evolved since FASAB issued the standard in October 1998. The 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. Specifically, the TR provides 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 SFFAS 10; and
 - c. Management's role in applying SFFAS 10.
2. This TR introduces new terms used in current development practices and defines them in light of the application of this guidance. It provides a discussion of issues and examples to assist entity management in applying the principles described throughout the TR. The examples were selected because they were derived from underlying transactions or organizational characteristics rather than being attributable to preferences.
3. The accounting standards and related basis for conclusions consistently recognize management's role in interpreting and applying generally accepted accounting principles (GAAP) within its operational environment. This TR recognizes that management is responsible for establishing IUS accounting policies, methodologies, and for maintaining adequate documentation on the sources of data. It also recognizes that the cost of producing federal financial information, as it relates to capitalization or expense of IUS cost, should not outweigh the benefits derived by the users of the financial information.

BACKGROUND

4. The software development life cycle has dramatically changed since the issuance of SFFAS 10 in 1998. At that time the linear/waterfall¹ software development practices were prevalent and characterized by three distinct life-cycle phases and long development cycles. Given the changes in development practices, technological

¹ The waterfall model is a sequential design process, used in software development processes, in which progress is seen as flowing steadily downwards (like a waterfall) through the software development phases.

advances, and significant new development techniques and architectures,² guidance for implementation and sustainment of SFFAS 10 became critical.

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. The business events and deliverables table and agency practice examples are provided in Appendix B. These examples are intended to illustrate use of professional judgment in the development and application of policy and practices to account for IUS in accordance with GAAP. The examples are not all encompassing and **agencies reporting entities** may identify other more useful and relevant methodologies. Users of this guidance should use these examples to develop their own reasonable business processes.
6. This TR was developed to aid in meeting the operating performance reporting objective identified in Statement of Federal Financial Accounting Concepts ([SFFAC](#)) 1, *Objectives of Federal Financial Reporting*, paragraph 14³: Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine:
 - a. The costs of providing specific programs and activities and the compositions of, and changes in, these costs;
 - b. The efforts and accomplishments associated with Federal programs and the changes over time and in relation to costs; and
 - c. The efficiency and effectiveness of the Government's management of its assets and liabilities.

RELATED ACCOUNTING LITERATURE

7. The related accounting standards are as follows:
 - a. [SFFAC 2, Entity and Display](#)
 - ~~a-b.~~ SFFAS 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*
 - ~~b-c.~~ SFFAS 5, *Accounting for Liabilities of the Federal Government*
 - ~~c-d.~~ SFFAS 6, *Accounting for Property, Plant, and Equipment*
 - ~~d-e.~~ SFFAS 10, *Accounting for Internal Use Software*
 - ~~e-f.~~ SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Standards of Federal Financial Accounting Standards 6 and 23*

² Such as cloud service, shared service, agile development, and spiral development with a focus on module based development and shorter development cycles.

³ This principle was also relied upon in Office of Management and Budget (OMB) Circular A-11 *Preparation, Submission, and Execution of the Budget*; Supplement to Circular A-11, *Capital Programming Guide* (July 2014), Page 61.

TECHNICAL GUIDANCE

SCOPE

8. Readers of this Technical Release (TR) should first refer to the hierarchy of accounting standards in [Statement of Federal Financial Accounting Standards \(SFFAS\) 34, The Hierarchy of Generally Accepted Accounting Principles, including the Application of Standards Issued by the Financial Accounting Standards Board](#). This TR supplements the relevant accounting standards, but is not a substitute for and does not take precedence over the standards. This TR clarifies but does not change guidance provided in SFFAS 4, SFFAS 5, SFFAS 6, SFFAS 10, and SFFAS 35.
9. This TR ~~affects supersedes rescinds~~ TR5 *Implementation Guidance on Statement of Federal Financial Accounting Standards 10: Accounting for Internal Use Software*. ~~In specific, paragraphs 12, 13, 14, 17 and 18 are rescinded.~~
10. This TR applies to all internal use software that meet the definition of IUS as described in SFFAS 10 ~~including, 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

APPLYING EXISTING STANDARDS TO CURRENT DEVELOPMENT MODELS

11. **IUS Definition:** SFFAS 10, paragraphs 8 – 9, defines “internal use software” as software that is “purchased from commercial vendors off-the-shelf (COTS), internally developed, or contractor-developed solely to meet the entity’s internal or operational needs.” The IUS development or modification can be performed by employees of the entity or contractors that the ~~federal~~ entity is paying to design program, install, and implement. Software assets need to be evaluated for ownership to determine which entity is ultimately responsible for reporting the asset.
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

⁴ SFFAS 10, par. 22 provides that computer software that is integrated into and necessary to operate general PP&E, rather than perform an application, should be considered part of the PP&E of which it is an integral part and capitalized and depreciated accordingly. However, computer software could be developed separately and installed on several general PP&E assets at different times. For example, anti-ballistic missile software installed on multiple radar systems at different times can be treated as a separate IUS asset if the software meets the capitalization threshold.

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 should be capitalized or expensed based on provisions of SFFAS 10 and considering their substance of the activity rather than their phase.

13. **Capitalized Cost:** The full cost (direct and indirect cost as stated in SFFAS 4, paragraph 89, 90, and 91) incurred during the software development phases should be capitalized (SFFAS 10 paragraph 16 thru 18). Considering economic feasibility, a cost estimation technique could be developed to trace the costs to outputs based on the SFFAS 4, paragraph 124, provision that “[in] principle, costs should be assigned to outputs in one of the methods listed below in the order of preference:

- a. Directly tracing costs wherever economically feasible;
- b. Assigning costs on a cause-and-effect basis; and
- c. Allocating costs on a reasonable and consistent basis.”

14. A specific software development project may include expenditures for improvements and maintenance that cannot be easily separated but may be reasonably and consistently allocated. One approach that can be used is a ratio based on the projected work hours for development phase activities relative to other types of work. Such a ratio can be applied to determine the expenditures that should be capitalized. The basis for allocating costs should be consistent with applicable standards and defensible.

15. **Capitalization Cut Off:** SFFAS 10 paragraph 20 states, “Costs incurred after final acceptance testing has been successfully completed should be expensed. Where the software is to be installed at multiple sites, capitalization should cease at each site after testing is complete at that site.” In some development practices, each iteration⁵ within an IUS development has its own acceptance testing before moving forward to the next iteration and final acceptance testing may not always be performed. 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.

16. **Integrated Software:** SFFAS 10 paragraph 22 states, “Computer software that is integrated into and necessary to operate general PP&E, rather than perform an application, should be considered part of the PP&E of which it is an integral part and capitalized and depreciated accordingly (e.g., airport radar and computer-operated lathes). The aggregate cost of the hardware and software should be used to determine whether to capitalize or expense the costs.” In situations where software and the hardware on which it runs have independent service lives, the determination of the useful life of the software should be viewed independently of the useful life of the hardware. This determination should be made on a case by case basis for each entity and is at the discretion of management of the entity. The rationale for this determination should be documented.

Comment [WP1]: TR 5 guidance added so that TR 5 can be rescinded.

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⁵ Iteration is the act of repeating a process with the aim of approaching a desired goal, target or result. Each repetition of the process is also called an “iteration,” and the results of one iteration are used as the starting point for the next iteration.

17. **Component Based IUS Asset:** SFFAS 10 paragraph 33 states, “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.” For example, an entity may develop an accounting software system containing three modules: a general ledger, an accounts payable sub-ledger, and an accounts receivable sub-ledger. In this example, each module could be analyzed to determine whether it could be treated as a separate asset. Specifically, if the module provides economic benefit through distinct, substantive functionality; and meets the tests for capitalization threshold, ownership, and eligibility for capital treatment, then the module could be treated as a separate IUS asset for the purposes of recognition, measurement including amortization, and disclosure in accordance with SFFAS 10.
18. **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 [as stated in SFFAC 2 paragraph 46](#). 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.⁶
19. When establishing a capitalization threshold for bulk software purchases, the threshold should not be based on unit price. The organization should consider the bulk value and useful life established by the organization to avoid materially distorting period costs and understating asset values.
20. OMB notes that a stratified capital programming process involving more or less detail and review based on the size or strategic importance of proposed investments may be appropriate, particularly in large agencies.⁷ Similarly, more than one capitalization threshold could be established for different components of a large agency. Agencies should have well documented thresholds clearly disseminated and implemented across the organization.
21. **Enhancement:** SFFAS 10 paragraph 25 states, “The acquisition cost of enhancements to existing internal use software (and modules thereof) should be capitalized when it is more likely than not that they will result in significant additional capabilities.” Significant additional capabilities are modifications to existing IUS that result in additional functionality—that is, modifications to enable the software to perform tasks that it was previously incapable of performing. As stated in SFFAS 10 paragraph 26, capitalizable enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. Examples of enhancements could include augmenting existing business functions with new features and functions,

⁶ OMB Circular A-11 *Preparation, Submission, and Execution of the Budget; Supplement to Circular A-11, Capital Programming Guide, Threshold for Capital Programming*, page 2, July 2014.

⁷ See note 6.

developing additional new business functions, and/or adding new functionality and capability.

22. If one module is dependent upon another to function, then those modules should be evaluated together as one enhancement. All costs of an enhancement, including any costs carried over or allocated from the original software, should be amortized over the enhancement's estimated useful life.
23. **Impairment:** SFFAS 10 paragraphs 28-30 address how to determine if software is impaired during the post-implementation operational phases and the measurement of the impairment for the impaired software remaining in use or to be removed. Significant events or changes in operating circumstances warrant a review to determine whether the carrying value of an existing software asset is not recoverable and should be impaired. An assessment should be performed to determine the remaining useful life of the impaired software for amortization purposes.
24. When it is more likely than not that a developmental software project will not be completed, no further costs should be capitalized and any costs that have been capitalized should be written off in accordance with SFFAS10, paragraph 31. Indications that the software may no longer be completed include:
- a. The expenditures are neither budgeted nor incurred to fund further development;
 - b. The discontinuance of the business segment the software was designed for;
 - c. The inability to resolve programming difficulties timely; or
 - ~~d. Significant cost overruns; or~~
 - ~~e.d.~~ A decision to obtain COTS instead and abandon the current software development
25. When a developmental software project is suspended pending management's evaluation as to whether to resume or terminate the project, the software development cost may remain capitalized as long as a reasonable chance it is more likely than not⁸ exists that the developmental software project will eventually be completed and the cost incurred or expected to be incurred meets the capitalization threshold. The status of the project should be reevaluated periodically and the capitalized cost should be written off if management concludes that it is more likely than not that the software will not be placed into service in the future.
26. Software License: If the term of software license(s) is 2 years or more with periodic payments, the licenses should be evaluated against lease criteria as stated in SFFAS 5 paragraphs 43-46 and SFFAS 6 paragraph 20 to determine if it is a capital or operating lease. If the license(s) is perpetual with an upfront cost⁹ to use the software for its entire lifetime, then the entity is purchasing IUS and should apply its~~s~~ existing policy for capitalization thresholds could be applied to determine if it the license should be capitalized or expensed.

⁸ ~~See SFFAS10-~~ par. 31 provides for write off if it is more likely than not that the project will not be completed and placed in service.

⁹ The cost could be charged as a one-time payment or financed over a set period of time.

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26-27. A license agreement that may include executory costs for maintenance and technical support. Agency judgment should apply in determining what portions of license fees are attributable to software capitalizable costs versus executory costs. Assuming lease capitalization criteria and thresholds are met, software license capitalization amounts¹⁰⁹ may be derived from the payment schedule contained in the license agreement. As stated in SFFAS 5, if the portion of the minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated. Agencies may also want to consider having each license agreement specifically identify the various costs throughout the license lifecycle, for example, initial license, maintenance and enhancement.

Comment [WP2]: TR 5 guidance added so that TR 5 can be rescinded.

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GUIDANCE ON APPLYING SFFAS 10 TO CERTAIN NEW IUS DEVELOPMENTS

Cloud Computing

27-28. A cloud computing service is any resource that is provided over the Internet. It has the following essential characteristics: on-demand self-service, broad network access, resource pooling, rapid elasticity, and measured service. The most common cloud service resources are: software as a service, platform as a service, and infrastructure as a service.¹¹

28-29. 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 24-26 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. 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 and the full cost/inter-entity cost requirements of SFFAS 4-

Shared Services

29-30. Shared Service means a mission or support function provided by one business unit to other business units within or between organizations. The funding and resourcing of the service is shared and the providing entity effectively becomes an internal/external service provider. There are ~~two-three~~ types of shared service structures in the Federal Government: intra-agency, ~~and~~ interagency and commercial. Intra-agency shared services include those provided within the boundaries of a specific organization such as a Federal department or agency, to that organization's internal units. Interagency shared

¹⁰ SFFAS 5, paragraph 44.

¹¹ The full definition is available at The National Institute of Standards and Technology: *The NIST Definition of Cloud Computing*, Special Publication 800-145, September 2011.

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services are those provided by one Federal organization to other Federal organizations that are outside of the provider's organizational boundaries. Commercial shared services are those provided by private vendors.¹²

~~30.~~31. For intra-agency shared services, a cost allocation methodology could be developed in accordance with SFFAS 4, paragraphs 120-125. For interagency shared services and commercial shared services, the service provider entity that owns (receives funding/responsible for maintaining) the software should account for the software in accordance with SFFAS 10. In the event that the entity receiving the service (the customer) has the contractual right to take possession of the software at any time during the hosting period without significant penalty, and it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software, then the customer should account for the software in accordance with SFFAS 10.

~~31.~~32. If the shared service arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of their other software licenses, as discussed in this TR paragraph 24. SFFAS 10 is not applicable to a shared service arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license.

Agile Software Development Method

~~32.~~33. Agile software development method is a group of software development methods in which requirements and solutions evolve through collaboration between self-organizing, cross-functional teams. In an agile project, working software is deployed in iterations of typically one to eight weeks in duration, each of which provides a segment of functionality.¹³ Initial planning regarding cost, scope, and timing is usually conducted at a high level, and the project status is primarily evaluated based on software demonstrations.

~~33.~~34. The IUS development phases listed in SFFAS 10 paragraphs 10 -14 and within this TR could be applied to agile development projects on an iteration basis. If an iteration developed meets the module or component asset definition in accordance with SFFAS 10, paragraph 33 and as discussed in paragraph15 of this TR, then it could be treated as an individual IUS project and would be accounted for in accordance with SFFAS 10. If the numbers of iterations are dependent on the outcomes of multiple processes for a complete function, the cost incurred in these iterations should be grouped together based on the nature of the activities (capital or expense) and treated as one project for the purposes of recognition, measurement, and disclosure in accordance with SFFAS 10. Any future incremental releases that result in additional functionality can be treated as an enhancement of the original IUS project and accounted for in accordance with SFFAS 10.

¹² Chief Information Office Council: *Federal Shared Service Implementation Guide*, April 2013. ~~A~~and OMB M-13-08: Improving Financial Systems Through Shared Services, March 25, 2013.

¹³ Government Accountability Office: *Software Development Effective Practices and Federal Challenges in Applying Agile Methods*, July 2012.

Spiral Software Development Method

- 34.35. Spiral software development method combines the features of the waterfall and prototyping¹⁴ incremental models, but with more emphasis placed on risk analysis and management. The spiral methodology projects are typically separated into phases like the waterfall method: planning, risk analysis, engineering, and evaluation. However, they are broken up into incremental releases of the product, or incremental refinement through each time around the spiral and through continuously analyzing the requirements and improving the definition and implementation. At each iteration around the cycle, the project is improved and extended. The release could be to an external or internal client, or to a partner.
36. The IUS development phases listed in SFFAS 10 paragraphs 10-14 and within this TR could be applied to a spiral development project on a process iteration basis. If an iteration developed meets the module or component asset definition in accordance with SFFAS 10 and as discussed in paragraph 15 of this TR, then it could be treated as an individual IUS project and would be accounted for in accordance with SFFAS 10. If the number of iterations are dependent on the outcomes of multiple spiral processes for a complete function, the cost incurred in these iterations should be grouped together based on the nature of the activities (capital or expense) and treated as one project for the purposes of recognition, measurement, and disclosure in accordance with SFFAS 10. Any future incremental releases that result in additional functionality can be treated as an enhancement of the original IUS project and accounted for in accordance with SFFAS 10.

SUMMARY OF ILLUSTRATIONS

- 35.37. The Business Events & Deliverables for Software Development Phases and the Common Agency Practice tables listed in Appendix B support development of accounting policies and practices appropriate to each organization's characteristics in accordance with GAAP. The tables are meant to provide examples for reporting entities to consider in developing organizational accounting policies and practices that will best support their operating models, provide the financial information necessary to manage programs, and report in accordance with GAAP. Reporting entities should report the IUS in the general purpose financial reports. Full costs of IUS development should be expensed or capitalized in accordance with GAAP and each entity's accounting policies and practices should support cost beneficial implementation.

EFFECTIVE DATE

¹⁴ The Prototyping Model is a system development method in which a prototype (an early approximation of a final system or product) is built, tested, and then reworked as necessary until an acceptable prototype is finally achieved from which the complete system or product can now be developed. This model works best in scenarios where not all of the project requirements are known in detail ahead of time. It is an iterative, trial-and-error process that takes place between the developers and the users.

~~36-38.~~ This Technical Release is effective upon issuance.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX

APPENDIX A: BASIS FOR CONCLUSIONS

This Appendix discusses some factors considered significant by AAPC members in reaching the conclusions in this Technical Release. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The guidance enunciated in this TR not the material in this Appendix should govern the accounting for specific transactions, events, or conditions.

PROJECT HISTORY

- A1. In June 2013, FASAB's AAPC established the IUS Task Force to assist in developing implementation guidance for IUS as it relates to SFFAS 10, *Accounting for Internal Use Software* and other related IUS guidance developed by the FASAB. The task force includes federal agency representatives who are experiencing issues with implementing SFFAS 10 and those who have implemented workable common practices to share with the federal community as well as industry representatives from several public accounting and consulting firms.
- A2. During the initial phase of the project, the IUS task force divided into three subgroups to conduct research and explore the best approach for addressing current IUS issues within the federal community, including whether a TR should be developed, or revisions should be made to SFFAS 10. The subgroups met separately to discuss their assigned issues and report their research findings. The three subgroups were:
 - a. IUS Mapping Team
 - b. IUS Benchmarking Team
 - c. Standards Team
- A3. After presenting the results of their research to the FASAB and AAPC, the task force concluded that implementation guidance would address the current IUS issues within the federal community. As a result, the AAPC endorsed the approach. The group held a re-entrance meeting on February 27, 2015 to re-engage agencies in drafting implementation guidance. This guidance focused on highlighting the common issues identified across the federal government IUS process, clarifying terminology, introducing new terms from the recent software development methodologies in light of application of SFFAS 10, and providing sample IUS practices adopted by the agencies. Based on the research, a TR would equip federal agencies with the knowledge and information needed to identify effective IUS practices that would in turn strengthen financial reporting in IUS area. It consists of two major topic areas:
 - a. Standards Clarification
 - b. Practical Examples of Implementation
- A4. The IUS FASAB Task Force, which included industry representatives from several public accounting and consulting firms, as well as representatives from the following federal agencies, developed this proposed guidance:

- a. Department of Commerce (DOC)
- b. Department of Defense (DOD) (including the individual military departments)
- c. Department of Health and Human Services (HHS)
- d. Department of Homeland Security (DHS)
- e. Department of Labor (DOL)
- f. Department of Transportation (DOT)
- g. Department of Treasury (Treasury)
- h. Environmental Protection Agency (EPA)
- i. Office of the Director of National Intelligence (ODNI)
- j. United States Securities and Exchange Commission (SEC)

- A5. Two subgroups were formed for standards clarification and best practices. The subgroups developed two data calls to highlight the commonalities across the federal IUS process. The first data call aided federal agencies in clarifying terminology and identified popular new IUS development items. The second data call highlighted IUS current practices adopted by the agencies and identified IUS development phase activities across the IUS development phases. The second data call also collected detail business events and typical deliverables during IUS development phases. Both data calls equip federal agencies with the knowledge and information needed to strengthen financial reporting.
- A6. In reaching ~~its~~ conclusions, the subgroups recognized the need to develop implementation guidance to promote an understanding of rapid changes related to software development practices that have evolved since the inception of SFFAS 10. The IUS task force views clarification of implementation and sustainment issues as critical given the new IUS challenges related to environmental changes and technological advances. There are several cost-beneficial and reasonable changes (for example, policies, systems, and processes) that federal entities can make to facilitate better financial management and reporting of IUS. However, entity management must be allowed to navigate within the parameters of GAAP to determine the point at which the costs of improving or providing financial information outweigh the derived benefits.
- A7. This TR recognizes that the financial management information needs of stakeholders, both internal and external, vary by entity. The agency-specific examples (detailed in Appendix B) demonstrate how tracking costs to specific invoices may be tailored to different operating models and comply with GAAP. The implementation guidance does not provide a 'one-size-fits-all' solution; instead, it is designed to give management a tool on which to base stakeholder financial management information needs.
- A8. When applying the principles listed in the SFFAS 10, management should develop formalized policies and procedures documenting their decisions. Management is responsible for maintaining adequate documentation on the sources of data and the application of methodologies used when estimating cost.
- A9. Implementation of SFFAS 10 and this guidance is a joint effort of an entity's Chief Finance Office and Chief Information Office. It is management's responsibility to provide for smooth communication between these two offices to foster an efficient and effective IUS implementation process.

RESPONSES TO THE PROPOSAL

A10. The AAPC received 12 responses to the exposure draft from the following sources:

Table 1.0 – Types of Respondents

| | Federal (Internal) | Non-federal (External) |
|----------------------------------|-------------------------------|-----------------------------------|
| Users, academics, others | | 1 |
| Auditors | | 1 |
| Preparers and financial managers | 10 | |
| Total | 10 | 2 |

A11. The AAPC considered responses to the exposure draft at its November 19, 2015, public meeting. The AAPC did not rely on the number in favor of or opposed to a given position. Information about the respondents majority view is provided only as a means of summarizing the comments. The AAPC considered the arguments in each response and weighed the merits of the points raised.

A12. Of the 12 responses, nine supported the proposal. The remaining three offered comments.

AAPC & BOARD APPROVAL

A13. The Technical Release was approved by the AAPC for release to the FASAB for issuance. The Board has reviewed this Technical Release and a majority of its members do not object to its issuance. Written ballots are available for public inspection at the FASAB's offices.

Comment [GW3]: To be finalized

APPENDIX B: ILLUSTRATIONS

The examples in this Appendix are for illustration only; they do not represent authoritative guidance. These illustrations depict only a portion of the reporting entities' operations and their inclusion in this TR does not equate to policy acceptance, in whole or part, by the FASAB or the AAPC.

ILLUSTRATIONS B-1: BUSINESS EVENTS AND DELIVERABLES FOR SOFTWARE DEVELOPMENT PHASES

The table below provides examples of business events and deliverables which agencies may see within a typical software development life-cycle. The table is structured to follow the three software development phases as defined in SFFAS 10 paragraphs 11-14. When applying examples in this table to software development phases, the decision to capitalize or expense an item should be determined based on the nature of the cost activity when it is incurred, in accordance with SFFAS 10 paragraph 16 and as discussed in this TR paragraph 124. "It states that costs incurred during the development phase should be capitalized, while the costs incurred in other phases 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 should be capitalized or expensed based on provisions of SFFAS 10 and considering their substance rather than their phase."

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.

| Business Event | Typical Deliverables |
|---|--|
| Preliminary Design Phase | |
| Formulation of Alternatives ¹⁵ | |
| -Justification of investment need -Conceptual formulation of alternatives -Evaluation and testing of alternatives -Determination of existence of needed technology -Final selection of alternatives | Major Information Technology (IT) Business Cases, Capital Investment Decision Paper, Information Resources Management Strategic Plan, Enterprise Architecture Roadmap, IT Capital Asset Summary, Agency IT Portfolio Summary Submissions, Alternative of Analysis Report |

¹⁵ OMB Circular A-11 provides more information for alignment of agency IT investments with agency strategic plans.

| Business Event | Typical Deliverables |
|---|--|
| | |
| Establish Project Governance | |
| <ul style="list-style-type: none"> -Identify and incorporate vision, roles, responsibilities, governance, organizations and authorizations in project charter -Identify and document risks specific to project, including security risks -Establish and document quality control practices -Develop high-level estimates and schedule -Update discoveries and additional information | Project Charter, Project Action/Risk Register, Quality Management Plan, Project Schedule, Project Plan, Work Breakdown Structure |
| Determine Requirements | |
| <ul style="list-style-type: none"> -Develop high level list of functional and non-functional requirements -Obtain, review and document detailed business specifications for business requirements -Determine and document general data flows and interactions with other systems -Determine detailed business/system specifications to support requirements | Vision documents, Requirement Specification Document, Requirement Traceability Matrix, Process Flow Diagrams, Supplementary Specifications, Use Cases, User Workflow |
| Develop Software Development Plan | |
| <ul style="list-style-type: none"> -Create initial plan to define major releases of project and phases -Define configuration management practices -Define testing strategy for user acceptance, quality assurance and other necessary testing | Project Schedule, Release Specifications, Software Development Plan, Test Strategy, Quality Assurance (QA) Test Plan Risk Management Plan, User Interface Design Documents, Solution Design Document |
| Procurement | |
| <ul style="list-style-type: none"> -Create Request for Information (RFI) or Request for Proposal (RFP) for external vendor services or products -Evaluate and select externally provided services or products | RFI/RFP, Procurement Management Plan, Contract Statement of Work |
| Rapid Prototype/Pilot | |
| <ul style="list-style-type: none"> -Rapid prototype development and evaluation to refine requirements and prove concept -Pilot of proposed solution on small scale and over limited timeframe to prove concept and refine requirements -Update schedule and cost baseline based on discoveries from elaboration phase | Prototype (executable version of function and interface), Requirements Survey, Pilot program, Evaluation of Pilot, Scope Management Plan |

| Business Event | Typical Deliverables |
|---|---|
| | |
| Development Phase | |
| <i>Software Development Initiation</i> | |
| <ul style="list-style-type: none"> -Refine and execute practices for artifacts & configuration -Review work performed in prior iterative period, prioritize and assign work to be done in next iterative period -Coordinate updates to system inter-dependencies -Develop operations plan -Define and document architecture specifications -Develop and validate high value/high risk requirements of architecture components | Software Architecture Description Document, Software Development Plan, Iteration Plan, Operational Plan, Software Design Description |
| <i>Rapid Development Risk Evaluation</i> | |
| <ul style="list-style-type: none"> -Studies and analysis are performed during development environment to identify potential risks based on requirements & developed iteration | Risk identification and Mitigation Plan, Contingency Plan |
| <i>Coding and System Design</i> | |
| <ul style="list-style-type: none"> - Execute practices for version control of all software development artifacts - Create, design and modify system and associated hardware; coding and continuous refining. -Update project plan & business case -Add software development issues to the Issue Log to be prioritized and addressed -Conduct critical design review -Establish and document quality control practices | Software Architecture Document, Development Plan, Updated Project Management Documents, Issue Log, Critical Design Review Memorandum, Quality Management Plan |
| <i>Testing</i> | |

| Business Event | Typical Deliverables |
|--|---|
| <ul style="list-style-type: none"> -Identify tests and write test cases or scripts -Install hardware. Conduct unit and integration testing -Create operations manual and requirement documents for users -Document strategy and approach for system implementation (what will be deployed, where, and when) - Prepare turnover package to migration turnover and test readiness review and issue memo -Prepare detailed notes that describe the specific contents of a release for customer or outside testing party -Develop security test report and issue security certification and accreditation -Conduct user acceptance testing | Test Plan, Test Cases Scripts, Test Results, Operations Manual, Implementation Plan, Test Readiness Memorandum, Release Notes, Turnover Package, Transition Plan, Security Test Report, Security Certification and Accreditation, Security Test & Evaluation Plan, Software Architecture Document, Acceptance Test Plan, Acceptance Test Script |
| Readiness Review and Release | |
| <ul style="list-style-type: none"> -Conduct production readiness review and issue memo -Audit and project completion reports finalized -Issue operational readiness memo, certification of production, and final user acceptance testing memorandum | Production Readiness Review Memo, Transition Plan, Operational Readiness Memorandum, Audit and Project Completion Reports, Certification of Production, Final User Acceptance Testing Memorandum, User Manual, Operational Support Plan, Installation Plan |
| Post-implementation/ Operational Phase | |
| Deployment | |
| <ul style="list-style-type: none"> -Determine criteria for exiting transition phase controls have been identified and met -Stakeholder provides written approval that product meets documented business requirements -Revise and finalize detail Deployment/implementation plan | Update Project Management Documents, Scope Verification, Deployment/implementation plan |
| Training | |
| <ul style="list-style-type: none"> -Develop training delivery method, schedule, and plan -Develop training materials -Deliver training, record, and deliver webinars and communicate on-demand training | Training Plan, Training Materials, Training Delivery |
| Data Conversion | |
| <ul style="list-style-type: none"> -Development of software to facilitate data transfer or conversion -Develop data cleansing and transfer plan, including protocols for archiving legacy data -Perform activities to cleanse data and format for transfer -Perform mock migrations of data and analyze | Data Transfer Software, Data Transfer Plan, Formatted Data, Mock Migration Results and Analysis Report, Data Migration Validation Report |

| Business Event | Typical Deliverables |
|--|---|
| results -Perform final data migration and validation | |
| Operation and Maintenance Activities | |
| -Subsequent security accreditations (not included in user acceptance testing) -Software diagnostics -Repair processing and/or performance failures -Update documentation -Minor software updates -Minor corrections to design flaws | Accreditation Certification, Diagnostic Reports, Software and Process Documentation |
| Retirement of Software | |
| -Information preservation -Configuration management and control -Media sanitization -Hardware and software disposal | Disposal Certification |

ILLUSTRATIONS B-2: COMMON AGENCY PRACTICE

The common agency practice table highlights IUS practices adopted by the agencies in the areas identified by the IUS working group as common **problemschallenges**. It intends to equip federal agencies with the knowledge and information needed to identify effective IUS practices and does not provide a 'one-size-fits-all' solution; instead, it is designed to give management some practical examples. Users of this TR should use the information provided in these examples to develop their own reasonable business processes. This table covers four areas of IUS development: 1) Identifying Cost, 2) Software Amortization, 3) Enhancement to IUS, and 4) Impairment to IUS.

Illustration Sample #1: Identifying Cost

| ProblemChallenge Statement: Trace Development Cost to Specific Invoice | | |
|---|---------------------------------|--|
| ProblemChallenge Contributing Factors | Task Force Member Agency | Agency Practice |
| Cyclical development methodologies make differentiating between development and maintenance costs within an invoice difficult | A | Direct tracing or allocating the invoiced cost with the basis of estimate documented. Use status report or program/project documentation to evaluate activities and identify those that are development activities. |
| | B | Contractual requirement for vendor to provide a data item description deliverable with the estimate of costs between development and non-development activities along with each monthly invoice submitted. |
| | C | IUS cost primarily attributable to government labor hours. Quarterly report from the program offices detailing the employee or contract hours for each IUS project phase (preliminary design, development, or operational). |
| | D | Separate accounting lines used on purchase request and obligation document for development and non-development activity cost by coding every software project on a requisition. The capitalizable requisition must be coded with general ledger account IUS-In Development in the accounting string which drives the purchase order and vouchers, thereby requiring the vendor to invoice in accordance with the activity breakouts. |

Illustration Sample #2: Software Amortization

| ProblemChallenge Statement: Timing of Commencement of Depreciation/Amortization | | |
|--|---------------------------------|---|
| ProblemChallenge Contributing Factors | Task Force Member Agency | Agency Practice |
| Obtaining evidence to support the determination of commencement of amortization | A | Open inter departmental communication facilitates decision to begin depreciation of software. |
| | B | A sign off document confirming key development milestones such as acceptance test are met. |
| | C | A certificate of production is issued communicating the software is in production and being utilized. |

Illustration Sample #3: Enhancement to IUS

| ProblemChallenge Statement: Define Enhancement to Internal Use Software | | |
|--|---------------------------------|---|
| ProblemChallenge Contributing Factors | Task Force Member Agency | Agency Practice |
| Determination of the significance of an enhancement to the IUS; incremental enhancement of capability; and the enhancement associated with new IUS development model | A | Defines enhancement to be the replacement, upgrade, modification, or addition of new features or capabilities to an existing system, product, tool, service, or infrastructure to improve its functionality. It involves a change in the capabilities, requirements, design, and/or architecture. |
| | B | Add additional capabilities and the enhancement costs are above agency's capitalization threshold. Repair a design flaw or perform minor upgrades that extend the useful life without adding capabilities, the costs are expensed and the useful life of the original asset is adjusted, as necessary. |
| | C | Enhancement cost exceed capitalization threshold, and when it is more likely than not that such enhancements will result in a significant increase in functionality that is apparent to the user. The cost of routine or minor changes or modernizations that do not significantly add functionality should be expensed in the period incurred. Examples of minor enhancement include updating data tables, web-enabling, customizing reports, or changing graphic user interfaces. Enhancements that may extend the useful life of the software without adding significant capabilities are to be considered minor and expensed. |
| | D | In Agile development model, enhancement follows the same capitalization criteria threshold for each release separately and tracks each version individually. |

Illustration Sample #4: Impairment to IUS

| ProblemChallenge Statement: Determination of Impairment for Internal Use Software | | |
|---|---|--|
| ProblemChallenge Contributing Factors | Task Force Member Agency | Agency Practice |
| Determination of when the impairment is incurred without sufficient knowledge on the IUS operating status | A | Scenario-based impairment checklist reviewed on a quarterly basis to monitor impairment. The checklist examines the following scenarios: cessation of demand for the IUS asset, changes with an adverse effect on the IUS asset have occurred within the policy, legal or technological environment, plans to discontinue or restructure the IUS asset, the IUS asset is not performing as intended, and elements of the IUS asset functionality are not used as intended. |

APPENDIX C: ABBREVIATIONS

| | |
|-----------------------|--|
| AAPC | Accounting and Auditing Policy Committee |
| COTS | Commercial off The Shelf |
| DHS | Department of Homeland Security |
| DOC | Department of Commerce |
| DOD | Department of Defense |
| DOL | Department of Labor |
| DOT | Department of Transportation |
| EPA | Environmental Protection Agency |
| FASAB | Federal Accounting Standards Advisory Board |
| GAAP | Generally Accepted Accounting Principles |
| HHS | Department of Health and Human Services |
| IT | Information Technology |
| IUS | Internal Use Software |
| NIST | National Institute of Standards and Technology |
| ODNI | Office of the Director of National Intelligence |
| OMB | Office of Management and Budget |
| PP&E | Property, Plant, and Equipment |
| QA | Quality Assurance |
| RFI | Request for Information |
| RFP | Request for Proposal |
| SEC | United States Securities and Exchange Commission |
| SFFAS | Statement of Federal Financial Accounting Standards |
| SFFAC | Statement of Federal Financial Accounting Concepts |
| TR | Technical Release |
| Treasury | Department of Treasury |

AAPC General IUS Task Force

Becca Shiller, Department of Defense, Task Force Chairperson
Curt Nusbaum, Transportation Security Administration, Task Force Co-Chairperson

Susan Jennings, CACI, Task Force Subgroup Leader
Tim Mainguy, Deloitte., Task Force Subgroup Leader
Margie Oates, Commerce/Census, Task Force Subgroup Leader
Fola Ojumu, Kearney & Co., Task Force Subgroup Leader
Jackie Olewack, PWC, Task Force Subgroup Leader
Katherine Reed, DNI, Task Force Subgroup Leader
Wendy Nesbitt, TSA, Task Force Subgroup Leader
Annmarie Schumacher, NIST, Task Force Subgroup Leader

Task Force Member Agencies

Department of Commerce (DOC)
Department of Defense (DOD) (including the individual military departments)
Department of Health and Human Services (HHS)
Department of Homeland Security (DHS)
Department of Labor (DOL)
Department of Transportation (DOT)
Department of Treasury (Treasury)
Environmental Protection Agency (EPA)
Office of the Director of National Intelligence (ODNI)
United States Securities and Exchange Commission (SEC)

Task Force Member Firms

Deloitte.
Kearney & Co.

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Federal Accounting Standards Advisory Board

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 12¹

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:

| | |
|---|----|
| A. Tally of Responses By Question | 3 |
| B. Quick Table of Responses By Question..... | 5 |
| C. Major Answers and Comments by Question and by Respondent | 10 |
| D. Listing Of Additional Comments from Respondents..... | 19 |

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.

¹ 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:

| | FEDERAL (Internal) | NON-FEDERAL (External) |
|----------------------------------|-------------------------------|-----------------------------------|
| 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>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.</p> <p>Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.</p> | 9 | | 3 |
| <p>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.</p> <p>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.</p> | 9 | | 3 |
| <p>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.</p> <p>Do you think that both illustration tables will help</p> | 8 | | 4 |

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

| QUESTION | YES/AGREE | NO/DISAGREE | NO COMMENT |
|--|--|-------------|------------|
| agencies? If not, please explain your reason. | | | |
| 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? | 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>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.</p> <p>Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.</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 | <p>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.</p> <p>Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.</p> |
|-------------------|--|
| #12 SSA | Did not specify agreement or disagreement |

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

| RESPONDENT | <p>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.</p> <p>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.</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>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.</p> <p>Do you think that both illustration tables will help agencies? If not, please explain your reason.</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 | 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 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>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.</p> <p>Do you agree with the clarification and the new concepts, such as Component Based IUS Asset, presented? If not, please explain your reason.</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

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| | <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

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| | <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;">10. This TR applies to all internal use software that meet the definition of IUS as described in SFFAS 10., except for the following:</p> <p style="padding-left: 40px;">a. Software to be used in research and development where the software will not have an alternate future use, and</p> <p style="padding-left: 40px;">b. Integrated software (SFFAS10 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.</p> <p><i>Staff Response: SFFAS 10 & SFFAS 8 only addresses stewardship investment aspects of R&D (and not decisions to capitalize or expense costs), this implementation guide addresses treatment of IUS related R&D per request from DoD and guidance for distinguishing software related to PP&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

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| | <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 include both qualitative and quantitative considerations <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> |

STAFF SUMMARY OF RESPONSES – Table C

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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>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.</p> <p>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.</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

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| | <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> |

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

STAFF SUMMARY OF RESPONSES – Table C

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| 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. | |
| #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> |

STAFF SUMMARY OF RESPONSES – Table C

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| 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 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> |

STAFF SUMMARY OF RESPONSES – Table C

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| | <ul style="list-style-type: none"> – 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. <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

| <u>Respondent</u> | <u>Comment</u> |
|-------------------|--|
| #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> |

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):

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;

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):

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 read "G. Alston", is written over the word "Sincerely,".

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

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?

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.

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.

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

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.

****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

- 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 phrase 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 large initial "A" and a stylized "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

- 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: Jennie L. Loncon

Sent: Thursday, November 19, 2015 1:53 PM

To: Payne, Wendolyn M; FASAB

Cc: DNI-CFO-FrontOffice-ExecSec; Wu, Grace Q; Katherine Reed; Barbara B Jones

Subject: REVISED Documents: IC Comments on FASAB Implementation Guidance for Internal Use Software

Good Afternoon,

Apologies for the delay. Please find attached the updated comments matrix and response to questions. Please only use the response to questions for public release.

Thank you,

Jenn

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. | <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 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:</p> <ol style="list-style-type: none"> 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. | <p>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)?</p> <p>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</p> |

| 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. |
| 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 to 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. |



Federal Accounting Standards Advisory Board

IMPLEMENTATION GUIDANCE FOR INTERNAL USE SOFTWARE

Federal Financial Accounting Technical Release

Exposure Draft

Written comments are requested by October 31, 2015

September 16, 2015

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Section III. I (3) of FASAB’s Rules of Procedure authorizes the AAPC to issue Technical Releases related to existing federal accounting standards. Technical releases are intended to provide guidance on the specific application of Statements of Federal Financial Accounting Standards (SFFASs), Interpretations of SFFASs, and Technical Bulletins. AAPC’s Technical Releases are in the third category of authoritative guidance in the Federal GAAP hierarchy as stated in the SFFAS 34, The Hierarchy of Generally Accepted Accounting Principles. AAPC may not amend existing standards or promulgate new standards.

Additional background information is available from the FASAB or its website:

- [“Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”](#)
- [“Mission Statement: Federal Accounting Standards Advisory Board”](#), [exposure drafts](#), [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB’s website at: www.fasab.gov.

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Contact us:

Federal Accounting Standards Advisory Board
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Washington, DC 20548
Telephone 202-512-7350
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The Accounting and Auditing Policy Committee

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the Chief Financial Officers' Council (CFOC), and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) [formally the President's Council on Integrity and Efficiency (PCIE)], as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee established by the Federal Accounting Standards Advisory Board (FASAB). The mission of the FASAB is to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of Federal financial information. The mission of the AAPC is to assist the Federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

The AAPC is intended to address issues that arise in implementation, which are not specifically or fully discussed in Federal accounting and auditing standards. The AAPC's guidance is cleared by FASAB before being published.

Additional background information on the AAPC is available from the FASAB or its website:

- ◆ Charter of the Accounting and Auditing Policy Committee
- ◆ Accounting and Auditing Policy Committee Operating Procedures







Federal Accounting Standards Advisory Board

September 16, 2015

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Federal Financial Accounting Technical Release, *Implementation Guidance for Internal Use Software*, are requested. Specific questions for your consideration appear on page 3 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Committee if you explain the reasons for your position and any alternative you propose. Responses are requested by **October 15, 2015**.

All comments received are considered public information. Those comments may be posted to the AAPC's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

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

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document will be published in the Federal Register and in the FASAB's newsletter.

Sincerely,

Wendy M. Payne
AAPC Chairperson

EXECUTIVE SUMMARY

This Technical Release (TR) assists reporting entities in implementing Statement of Federal Financial Accounting Standards (SFFAS) 10, *Accounting for Internal Use Software*. Since FASAB issued SFFAS 10 in 1998, software development practices have changed dramatically and reporting entities have experienced challenges applying the standards given the new terminology and techniques that have evolved. The TR provides implementation guidance regarding:

- a. The definition of 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 SFFAS 10; 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 Internal Use Software (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.

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QUESTIONS FOR RESPONDENTS

The AAPC encourages you to become familiar with all proposals in the technical release before responding to the questions in this section. In addition to the questions below, the AAPC also would welcome your comments on other aspects of the proposed technical release.

The AAPC believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The AAPC has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

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

All responses are requested by **October 15, 2015**

- 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.

- 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.

- 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.

- 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?

INTRODUCTION

PURPOSE

1. This Technical Release (TR) assists agencies in applying SFFAS 10, *Accounting for Internal Use Software*, to the new software development practices that have evolved since FASAB issued the standard in October 1998. The 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. Specifically, the TR provides 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 SFFAS 10; and
 - c. Management's role in applying SFFAS 10.
2. This TR introduces new terms used in current development practices and defines them in light of the application of this guidance. It provides a discussion of issues and examples to assist entity management in applying the principles described throughout the TR. The examples were selected because they were derived from underlying transactions or organizational characteristics rather than being attributable to preferences.
3. The accounting standards and related basis for conclusions consistently recognize management's role in interpreting and applying generally accepted accounting principles (GAAP) within its operational environment. This TR recognizes that management is responsible for establishing IUS accounting policies, methodologies, and for maintaining adequate documentation on the sources of data. It also recognizes that the cost of producing federal financial information, as it relates to capitalization or expense of IUS cost, should not outweigh the benefits derived by the users of the financial information.

BACKGROUND

4. The software development life cycle has dramatically changed since the issuance of SFFAS 10 in 1998. At that time the linear/waterfall¹ software development practices were prevalent and characterized by three distinct life-cycle phases and long development cycles. Given the changes in development practices, technological

¹ The waterfall model is a sequential design process, used in software development processes, in which progress is seen as flowing steadily downwards (like a waterfall) through the software development phases.

advances, and significant new development techniques and architectures,² guidance for implementation and sustainment of SFFAS 10 became critical.

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. The business events and deliverables table and agency practice examples are provided in Appendix B. These examples are intended to illustrate use of professional judgment in the development and application of policy and practices to account for IUS in accordance with GAAP. The examples are not all encompassing and agencies may identify other more useful and relevant methodologies. Users of this guidance should use these examples to develop their own reasonable business processes.
6. This TR was developed to aid in meeting the operating performance reporting objective identified in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, paragraph 14³: Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine:
 - a. The costs of providing specific programs and activities and the compositions of, and changes in, these costs;
 - b. The efforts and accomplishments associated with Federal programs and the changes over time and in relation to costs; and
 - c. The efficiency and effectiveness of the Government's management of its assets and liabilities.

RELATED ACCOUNTING LITERATURE

7. The related accounting standards are as follows:
 - a. SFFAS 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*
 - b. SFFAS 6, *Accounting for Property, Plant, and Equipment*
 - c. SFFAS 5, *Accounting for Liabilities of the Federal Government*
 - d. SFFAS 10, *Accounting for Internal Use Software*
 - e. SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Standards of Federal Financial Accounting Standards 6 and 23*

² Such as cloud service, shared service, agile development and spiral development with a focus on module based development and shorter development cycles.

³ This principle was also relied upon in Office of Management and Budget (OMB) Circular A-11 *Preparation, Submission, and Execution of the Budget*; Supplement to Circular A-11, *Capital Programming Guide* (July 2014), Page 61.

TECHNICAL GUIDANCE

SCOPE

8. Readers of this Technical Release (TR) should first refer to the hierarchy of accounting standards in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, including the Application of Standards Issued by the Financial Accounting Standards Board*. This TR supplements the relevant accounting standards, but is not a substitute for and does not take precedence over the standards. This TR clarifies but does not change guidance provided in SFFAS 4, SFFAS 5, SFFAS 6, SFFAS 10, and SFFAS 35.
9. This TR affects TR5 *Implementation Guidance on Statement of Federal Financial Accounting Standards 10: Accounting for Internal Use Software*. In specific, paragraphs 12, 13, 14, 17 and 18 are rescinded.
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 (SFFAS10 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

APPLYING EXISTING STANDARDS TO CURRENT DEVELOPMENT MODELS

11. **IUS Definition:** SFFAS 10, paragraphs 8 – 9, defines “internal use software” as software that is “purchased from commercial vendors off-the-shelf (COTS), internally developed, or contractor-developed solely to meet the entity’s internal or operational needs.” The IUS development or modification can be performed by employees of the entity or contractors that the federal entity is paying to design program, install, and implement. Software assets need to be evaluated for ownership to determine which entity is ultimately responsible for reporting the asset.
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, costs incurred during the development phase are to be capitalized and costs incurred in other phases are to be expensed. However, software may not always be developed under this linear approach and capitalization decisions absent distinct phases are more difficult.

⁴ SFFAS 10, par. 22 provides that computer software that is integrated into and necessary to operate general PP&E, rather than perform an application, should be considered part of the PP&E of which it is an integral part and capitalized and depreciated accordingly. However, computer software could be developed separately and installed on several general PP&E assets at different times. For example, anti-ballistic missile software installed on multiple radar systems at different times can be treated as a separate IUS asset if the software meets the capitalization threshold.

Regardless of timing, the cost incurred for development phase activities should be capitalized or expensed based on their substance rather than their phase.

13. **Capitalized Cost:** The full cost (direct and indirect cost) incurred during the software development phases should be capitalized (SFFAS 10 paragraph 16 thru 18). Considering economic feasibility, a cost estimation technique could be developed to trace the costs to outputs based on the SFFAS 4, paragraph 124, provision that “[in] principle, costs should be assigned to outputs in one of the methods listed below in the order of preference:
 - a. Directly tracing costs wherever economically feasible;
 - b. Assigning costs on a cause-and-effect basis; and
 - c. Allocating costs on a reasonable and consistent basis.”
14. A specific software development project may include expenditures for improvements and maintenance that cannot be easily separated but may be reasonably and consistently allocated. One approach that can be used is a ratio based on the projected work hours for development phase activities relative to other types of work. Such a ratio can be applied to determine the expenditures that should be capitalized. The basis for allocating costs should be consist with applicable standards and defensible.
15. **Capitalization Cut Off:** SFFAS 10 paragraph 20 states, “Costs incurred after final acceptance testing has been successfully completed should be expensed. Where the software is to be installed at multiple sites, capitalization should cease at each site after testing is complete at that site.” In some development practices, each iteration⁵ within an IUS development has its own acceptance testing before moving forward to the next iteration and final acceptance testing may not always be performed. 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.
16. **Component Based IUS Asset:** SFFAS 10 paragraph 33 states, “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.” For example, an entity may develop an accounting software system containing three modules: a general ledger, an accounts payable sub-ledger, and an accounts receivable sub-ledger. In this example, each module could be analyzed to determine whether it could be treated as a separate asset. Specifically, if the module provides economic benefit through distinct, substantive functionality; and meets the tests for capitalization threshold, ownership, and eligibility for capital treatment, then the module could be treated as a separate IUS asset for the purposes of recognition, measurement including amortization, and disclosure in accordance with SFFAS 10.

⁵ Iteration is the act of repeating a process with the aim of approaching a desired goal, target or result. Each repetition of the process is also called an "iteration", and the results of one iteration are used as the starting point for the next iteration.

17. **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. 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.⁶
18. When establishing a capitalization threshold for bulk software purchases, the threshold should not be based on unit price. The organization should consider the bulk value and useful life established by the organization to avoid materially distorting period costs and understating asset values.
19. OMB notes that a stratified capital programming process involving more or less detail and review based on the size or strategic importance of proposed investments may be appropriate, particularly in large agencies.⁷ Similarly, more than one capitalization threshold could be established for different components of a large agency. Agencies should have well documented thresholds clearly disseminated and implemented across the organization.
20. **Enhancement:** SFFAS 10 paragraph 25 states, “The acquisition cost of enhancements to existing internal use software (and modules thereof) should be capitalized when it is more likely than not that they will result in significant additional capabilities.” Significant additional capabilities are modifications to existing IUS that result in additional functionality—that is, modifications to enable the software to perform tasks that it was previously incapable of performing. As stated in SFFAS 10 paragraph 26, capitalizable enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. Examples of enhancements could include augmenting existing business functions with new features and functions, developing additional new business functions, and/or adding new functionality and capability.
21. If one module is dependent upon another to function, then those modules should be evaluated together as one enhancement. All costs of an enhancement, including any costs carried over or allocated from the original software, should be amortized over the enhancement's estimated useful life.
22. **Impairment:** SFFAS 10 paragraphs 28-30 address how to determine if software is impaired during the post-implementation operational phases and the measurement of the impairment for the impaired software remaining in use or to be removed. Significant events or changes in operating circumstances warrant a review to determine whether the carrying value of an existing software asset is not recoverable and should be

⁶ OMB Circular A-11 *Preparation, Submission, and Execution of the Budget; Supplement to Circular A-11, Capital Programming Guide, Threshold for Capital Programming*, page 2, July 2014.

⁷ See note 6.

impaired. An assessment should be performed to determine the remaining useful life of the impaired software for amortization purposes.

23. When it is more likely than not that a software project will not be completed, no further costs should be capitalized and any costs that have been capitalized should be written off in accordance with SFFAS10, paragraph 31. Indications that the software may no longer be completed include:
 - a. The expenditures are neither budgeted nor incurred to fund further development;
 - b. The discontinuance of the business segment the software was designed for;
 - c. The inability to resolve programming difficulties timely;
 - d. Significant cost overruns; or
 - e. A decision to obtain COTS instead and abandon the current software development
24. When a software project is suspended pending management's evaluation as to whether to resume or terminate the project, the software development cost may remain capitalized as long as a reasonable chance⁸ exists that the software project will eventually be completed and the cost incurred or expected to be incurred meets the capitalization threshold. The status of the project should be reevaluated periodically and the capitalized cost should be written off if management concludes that it is more likely than not that the software will not be placed into service in the future.
25. **Software License:** If the term of software license(s) is 2 years or more, the licenses should be evaluated against lease criteria as stated in SFFAS 5 paragraphs 43-46 and SFFAS 6 paragraph 20 to determine if it is a capital or operating lease. If the license(s) is perpetual with an upfront cost⁹ to use the software for its entire lifetime, then the entity's existing policy for capitalization thresholds could be applied to determine if it should be capitalized or expensed.

GUIDANCE ON APPLYING SFFAS 10 TO CERTAIN NEW IUS DEVELOPMENTS

Cloud Computing

26. A cloud computing service is any resource that is provided over the Internet. It has the following essential characteristics: on-demand self-service, broad network access, resource pooling, rapid elasticity, and measured service. The most common cloud service resources are: software as a service, platform as a service, and infrastructure as a service.¹⁰

⁸ See SFFAS10. par. 31 provides for write off if it is more likely than not that the project will not be completed and placed in service.

⁹ The cost could be charged as a one-time payment or financed over a set period of time.

¹⁰ The full definition is available at The National Institute of Standards and Technology: *The NIST Definition of Cloud Computing*, Special Publication 800-145, September 2011.

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. 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.

Shared Services

28. Shared Service means a mission or support function provided by one business unit to other business units within or between organizations. The funding and resourcing of the service is shared and the providing entity effectively becomes an internal/external service provider. There are two types of shared service structures in the Federal Government: intra-agency and interagency. Intra-agency shared services include those provided within the boundaries of a specific organization such as a Federal department or agency, to that organization's internal units. Interagency shared services are those provided by one Federal organization to other Federal organizations that are outside of the provider's organizational boundaries.¹¹
29. For intra-agency shared services, a cost allocation methodology could be developed in accordance with SFFAS 4, paragraphs 120-125. For interagency shared services, the service provider entity that owns (receives funding/responsible for maintaining) the software should account for the software in accordance with SFFAS 10. In the event that the entity receiving the service (the customer) has the contractual right to take possession of the software at any time during the hosting period without significant penalty, and it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software, then the customer should account for the software in accordance with SFFAS 10.
30. If the shared service arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of their other software licenses, as discussed in this TR paragraph 24. SFFAS 10 is not applicable to a shared service arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license.

¹¹ Chief Information Office Council: *Federal Shared Service Implementation Guide*, April 2013.

Agile Software Development Method

31. Agile software development method is a group of software development methods in which requirements and solutions evolve through collaboration between self-organizing, cross-functional teams. In an agile project, working software is deployed in iterations of typically one to eight weeks in duration, each of which provides a segment of functionality.¹² Initial planning regarding cost, scope, and timing is usually conducted at a high level, and the project status is primarily evaluated based on software demonstrations.
32. The IUS development phases listed in SFFAS 10 paragraphs 10 -14 and within this TR could be applied to agile development projects on an iteration basis. If an iteration developed meets the module or component asset definition in accordance with SFFAS 10, paragraph 33 and as discussed in paragraph 15 of this TR, then it could be treated as an individual IUS project and would be accounted for in accordance with SFFAS 10. If the numbers of iterations are dependent on the outcomes of multiple processes for a complete function, the cost incurred in these iterations should be grouped together based on the nature of the activities (capital or expense) and treated as one project for the purposes of recognition, measurement, and disclosure in accordance with SFFAS 10. Any future incremental releases that result in additional functionality can be treated as an enhancement of the original IUS project and accounted for in accordance with SFFAS 10.

Spiral Software Development Method

33. Spiral software development method combines the features of the waterfall and prototyping¹³ incremental models, but with more emphasis placed on risk analysis and management. The spiral methodology projects are typically separated into phases like the waterfall method: planning, risk analysis, engineering, and evaluation. However, they are broken up into incremental releases of the product, or incremental refinement through each time around the spiral and through continuously analyzing the requirements and improving the definition and implementation. At each iteration around the cycle, the project is improved and extended. The release could be to an external or internal client, or to a partner.
34. The IUS development phases listed in SFFAS 10 paragraphs 10-14 and within this TR could be applied to a spiral development project on a process iteration basis. If an iteration developed meets the module or component asset definition in accordance with SFFAS 10 and as discussed in paragraph 15 of this TR, then it could be treated as an individual IUS project and would be accounted for in accordance with SFFAS 10. If the number of iterations are dependent on the outcomes of multiple spiral processes for a

¹² Government Accountability Office: *Software Development Effective Practices and Federal Challenges in Applying Agile Methods*, July 2012.

¹³ The Prototyping Model is a system development method in which a prototype (an early approximation of a final system or product) is built, tested, and then reworked as necessary until an acceptable prototype is finally achieved from which the complete system or product can now be developed. This model works best in scenarios where not all of the project requirements are known in detail ahead of time. It is an iterative, trial-and-error process that takes place between the developers and the users.

complete function, the cost incurred in these iterations should be grouped together based on the nature of the activities (capital or expense) and treated as one project for the purposes of recognition, measurement, and disclosure in accordance with SFFAS 10. Any future incremental releases that result in additional functionality can be treated as an enhancement of the original IUS project and accounted for in accordance with SFFAS 10.

SUMMARY OF ILLUSTRATIONS

35. The Business Events & Deliverables for Software Development Phases and the Common Agency Practice tables listed in Appendix B support development of accounting policies and practices appropriate to each organization's characteristics in accordance with GAAP. The tables are meant to provide examples for reporting entities to consider in developing organizational accounting policies and practices that will best support their operating models, provide the financial information necessary to manage programs, and report in accordance with GAAP. Reporting entities should report the IUS in the general purpose financial reports. Full costs of IUS development should be expensed or capitalized in accordance with GAAP and each entity's accounting policies and practices should support cost beneficial implementation.

EFFECTIVE DATE

36. This Technical Release is effective upon issuance.

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| <p>The provisions of this Statement need not be applied to immaterial items.</p> |
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APPENDIX

APPENDIX A: BASIS FOR CONCLUSIONS

This Appendix discusses some factors considered significant by AAPC members in reaching the conclusions in this Technical Release. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The guidance enunciated in this TR not the material in this Appendix should govern the accounting for specific transactions, events, or conditions.

PROJECT HISTORY

- A1. In June 2013, FASAB's AAPC established the IUS Task Force to assist in developing implementation guidance for IUS as it relates to SFFAS 10, *Accounting for Internal Use Software* and other related IUS guidance developed by the FASAB. The task force includes federal agency representatives who are experiencing issues with implementing SFFAS 10 and those who have implemented workable common practices to share with the federal community as well as industry representatives from several public accounting and consulting firms.
- A2. During the initial phase of the project, the IUS task force divided into three subgroups to conduct research and explore the best approach for addressing current IUS issues within the federal community, including whether a TR should be developed, or revisions should be made to SFFAS 10. The subgroups met separately to discuss their assigned issues and report their research findings. The three subgroups were:
 - a. IUS Mapping Team
 - b. IUS Benchmarking Team
 - c. Standards Team
- A3. After presenting the results of their research to the FASAB and AAPC, the task force concluded that implementation guidance would address the current IUS issues within the federal community. As a result, the AAPC endorsed the approach. The group held a re-entrance meeting on February 27, 2015 to re-engage agencies in drafting implementation guidance. This guidance focused on highlighting the common issues identified across the federal government IUS process, clarifying terminology, introducing new terms from the recent software development methodologies in light of application of SFFAS 10, and providing sample IUS practices adopted by the agencies. Based on the research, a TR would equip federal agencies with the knowledge and information needed to identify effective IUS practices that would in turn strengthen financial reporting in IUS area. It consists of two major topic areas:
 - a. Standards Clarification
 - b. Practical Examples of Implementation
- A4. The IUS FASAB Task Force, which included industry representatives from several public accounting and consulting firms, as well as representatives from the following federal agencies, developed this proposed guidance:

- a. Department of Commerce (DOC)
 - b. Department of Defense (DOD) (including the individual military departments)
 - c. Department of Health and Human Services (HHS)
 - d. Department of Homeland Security (DHS)
 - e. Department of Labor (DOL)
 - f. Department of Transportation (DOT)
 - g. Department of Treasury (Treasury)
 - h. Environmental Protection Agency (EPA)
 - i. Office of the Director of National Intelligence (ODNI)
 - j. United States Securities and Exchange Commission (SEC)
- A5. Two subgroups were formed for standards clarification and best practices. The subgroups developed two data calls to highlight the commonalities across the federal IUS process. The first data call aided federal agencies in clarifying terminology and identified popular new IUS development items. The second data call highlighted IUS current practices adopted by the agencies and identified IUS development phase activities across the IUS development phases. The second data call also collected detail business events and typical deliverables during IUS development phases. Both data calls equip federal agencies with the knowledge and information needed to strengthen financial reporting.
- A6. In reaching its conclusions, the subgroups recognized the need to develop implementation guidance to promote an understanding of rapid changes related to software development practices that have evolved since the inception of SFFAS 10. The IUS task force views clarification of implementation and sustainment issues as critical given the new IUS challenges related to environmental changes and technological advances. There are several cost-beneficial and reasonable changes (for example, policies, systems, and processes) that federal entities can make to facilitate better financial management and reporting of IUS. However, entity management must be allowed to navigate within the parameters of GAAP to determine the point at which the costs of improving or providing financial information outweigh the derived benefits.
- A7. This TR recognizes that the financial management information needs of stakeholders, both internal and external, vary by entity. The agency-specific examples (detailed in Appendix B) demonstrate how tracking costs to specific invoices may be tailored to different operating models and comply with GAAP. The implementation guidance does not provide a 'one-size-fits-all' solution; instead, it is designed to give management a tool on which to base stakeholder financial management information needs.
- A8. When applying the principles listed in the SFFAS 10, management should develop formalized policies and procedures documenting their decisions. Management is responsible for maintaining adequate documentation on the sources of data and the application of methodologies used when estimating cost.
- A9. Implementation of SFFAS 10 and this guidance is a joint effort of an entity's Chief Finance Office and Chief Information Office. It is management's responsibility to provide for smooth communication between these two offices to foster an efficient and effective IUS implementation process.

APPENDIX B: ILLUSTRATIONS

The examples in this Appendix are for illustration only; they do not represent authoritative guidance. These illustrations depict only a portion of the reporting entities' operations and their inclusion in this TR does not equate to policy acceptance, in whole or part, by the FASAB or the AAPC.

ILLUSTRATIONS B-1: BUSINESS EVENTS AND DELIVERABLES FOR SOFTWARE DEVELOPMENT PHASES

The table below provides examples of business events and deliverables which agencies may see within a typical software development life-cycle. The table is structured to follow the three software development phases as defined in SFFAS 10 paragraphs 11-14. When applying examples in this table to software development phases, the decision to capitalize or expense an item should be determined based on the nature of the cost activity when it is incurred, in accordance with SFFAS 10 paragraph 16 and as discussed in this TR paragraph 11: "Generally, costs incurred during the development phase are to be capitalized and costs incurred in other phases are to 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 should be capitalized based on their substance rather than their phase."

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.

| Business Event | Typical Deliverables |
|---|---|
| Preliminary Design Phase | |
| <i>Formulation of Alternatives¹⁴</i> | |
| <ul style="list-style-type: none"> -Justification of investment need -Conceptual formulation of alternatives -Evaluation and testing of alternatives -Determination of existence of needed technology -Final selection of alternatives | Major Information Technology (IT) Business Cases, Capital Investment Decision Paper, Information Resources Management Strategic Plan, Enterprise Architecture Roadmap, IT Capital Asset Summary, Agency IT Portfolio Summary submissions, Alternative of Analysis |

¹⁴ OMB Circular A-11 provides more information for alignment of agency IT investments with agency strategic plans.

| Business Event | Typical Deliverables |
|---|--|
| <i>Establish Project Governance</i> | |
| <ul style="list-style-type: none"> -Identify and incorporate vision, roles, responsibilities, governance, organizations and authorizations in project charter -Identify and document risks specific to project, including security risks -Establish and document quality control practices -Develop high-level estimates and schedule -Update discoveries and additional information | Project Charter, Project Action/Risk Register, Quality Management Plan, Project Schedule, Project Plan, Work Breakdown Structure |
| <i>Determine Requirements</i> | |
| <ul style="list-style-type: none"> -Develop high level list of functional and non-functional requirements -Obtain, review and document detailed business specifications for business requirements -Determine and document general data flows and interactions with other systems -Determine detailed business/system specifications to support requirements | Vision documents, Requirement Specification Document, Requirement Traceability Matrix, Process Flow Diagrams, Supplementary Specifications, Use Cases, User Workflow |
| <i>Develop Software Development Plan</i> | |
| <ul style="list-style-type: none"> -Create initial plan to define major releases of project and phases -Define configuration management practices -Define testing strategy for user acceptance, quality assurance and other necessary testing | Project Schedule, Release Specifications, Software Development Plan, Test Strategy, Quality Assurance (QA) Test Plan Risk Management Plan, User Interface Design Documents, Solution Design Document |
| <i>Procurement</i> | |
| <ul style="list-style-type: none"> -Create Request for Information (RFI) or Request for Proposal (RFP) for external vendor services or products -Evaluate and select externally provided services or products | RFI/RFP, Procurement Management Plan, Contract Statement of Work |
| <i>Rapid Prototype/Pilot</i> | |
| <ul style="list-style-type: none"> -Rapid prototype development and evaluation to refine requirements and prove concept -Pilot of proposed solution on small scale and over limited timeframe to prove concept and refine requirements -Update schedule and cost baseline based on discoveries from elaboration phase | Prototype (executable version of function and interface), Requirements Survey, Pilot program, Evaluation of Pilot, Scope Management Plan |

| Business Event | Typical Deliverables |
|--|---|
| Development Phase | |
| <i>Software Development Initiation</i> | |
| <ul style="list-style-type: none"> -Refine and execute practices for artifacts & configuration -Review work performed in prior iterative period, prioritize and assign work to be done in next iterative period -Coordinate updates to system inter-dependencies -Develop operations plan -Define and document architecture specifications -Develop and validate high value/high risk requirements of architecture components | Software Architecture Description Document, Software Development Plan, Iteration Plan, Operational Plan, Software Design Description |
| <i>Rapid Development Risk Evaluation</i> | |
| <ul style="list-style-type: none"> -Studies and analysis are performed during development environment to identify potential risks based on requirements & developed iteration | Risk identification and Mitigation Plan, Contingency Plan |
| <i>Coding and System Design</i> | |
| <ul style="list-style-type: none"> - Execute practices for version control of all software development artifacts - Create, design and modify system and associated hardware; coding and continuous refining. -Update project plan & business case -Add software development issues to the Issue Log to be prioritized and addressed -Conduct critical design review -Establish and document quality control practices | Software Architecture Document, Development Plan, Updated Project Management Documents, Issue Log, Critical Design Review Memorandum, Quality Management Plan |
| <i>Testing</i> | |
| <ul style="list-style-type: none"> -Identify tests and write test cases or scripts -Install hardware. Conduct unit and integration testing -Create operations manual and requirement documents for users -Document strategy and approach for system implementation (what will be deployed, where, and when) - Prepare turnover package to migration turnover and test readiness review and issue memo -Prepare detailed notes that describe the specific contents of a release for customer or outside testing party -Develop security test report and issue security certification and accreditation -Conduct user acceptance testing | Test Plan, Test Cases Scripts, Test Results, Operations Manual, Implementation Plan, Test Readiness Memorandum, Release Notes, Turnover Package, Transition Plan, Security Test Report, Security Certification and Accreditation, Security Test & Evaluation Plan, Software Architecture Document, Acceptance Test Plan, Acceptance Test Script |
| <i>Readiness Review and Release</i> | |
| <ul style="list-style-type: none"> -Conduct production readiness review and issue memo | Production Readiness Review Memo, Transition Plan, Operational Readiness |

| Business Event | Typical Deliverables |
|---|---|
| <ul style="list-style-type: none"> -Audit and project completion reports finalized -Issue operational readiness memo, certification of production, and final user acceptance testing memorandum | Memorandum, Audit and Project Completion Reports, Certification of Production, Final User Acceptance Testing Memorandum, User Manual, Operational Support Plan, Installation Plan |
| Post-implementation/ Operational Phase | |
| Deployment | |
| <ul style="list-style-type: none"> -Determine criteria for exiting transition phase controls have been identified and met -Stakeholder provides written approval that product meets documented business requirements -Revise and finalize detail Deployment/implementation plan | Update Project Management Documents, Scope Verification, Deployment/implementation plan |
| Training | |
| <ul style="list-style-type: none"> -Develop training delivery method, schedule, and plan -Develop training materials -Deliver training, record, and deliver webinars and communicate on-demand training | Training Plan, Training Materials, Training Delivery |
| Data Conversion | |
| <ul style="list-style-type: none"> -Development of software to facilitate data transfer or conversion -Develop data cleansing and transfer plan, including protocols for archiving legacy data -Perform activities to cleanse data and format for transfer -Perform mock migrations of data and analyze results -Perform final data migration and validation | Data Transfer Software, Data Transfer Plan, Formatted Data, Mock Migration Results and Analysis Report, Data Migration Validation Report |
| Operation and Maintenance Activities | |
| <ul style="list-style-type: none"> -Subsequent security accreditations (not included in user acceptance testing) -Software diagnostics -Repair processing and/or performance failures -Update documentation -Minor software updates -Minor corrections to design flaws | Accreditation Certification, Diagnostic Reports, Software and Process Documentation |
| Retirement of Software | |
| <ul style="list-style-type: none"> -Information preservation -Configuration management and control -Media sanitization -Hardware and software disposal | Disposal Certification |

ILLUSTRATIONS B-2: COMMON AGENCY PRACTICE

The common agency practice table highlights IUS practices adopted by the agencies in the areas identified by the IUS working group as common problems. It intends to equip federal agencies with the knowledge and information needed to identify effective IUS practices and does not provide a 'one-size-fits-all' solution; instead, it is designed to give management some practical examples. Users of this TR should use the information provided in these examples to develop their own reasonable business processes. This table covers four areas of IUS development: 1) Identifying Cost, 2) Software Amortization, 3) Enhancement to IUS, and 4) Impairment to IUS.

Illustration Sample #1: Identifying Cost

| Problem Statement: Trace Development Cost to Specific Invoice | | |
|---|--|--|
| <i>Problem Contributing Factors</i> | <i>Task Force Member Agency</i> | <i>Agency Practice</i> |
| Cyclical development methodologies make differentiating between development and maintenance costs within an invoice difficult | A | Direct tracing or allocating the invoiced cost with the basis of estimate documented. Use status report or program/project documentation to evaluate activities and identify those that are development activities. |
| | B | Contractual requirement for vendor to provide a data item description deliverable with the estimate of costs between development and non-development activities along with each monthly invoice submitted. |
| | C | IUS cost primarily attributable to government labor hours. Quarterly report from the program offices detailing the employee or contract hours for each IUS project phase (preliminary design, development, or operational). |
| | D | Separate accounting lines used on purchase request and obligation document for development and non-development activity cost by coding every software project on a requisition. The capitalizable requisition must be coded with general ledger account IUS-In Development in the accounting string which drives the purchase order and vouchers, thereby requiring the vendor to invoice in accordance with the activity breakouts. |

Illustration Sample #2: Software Amortization

| Problem Statement: Timing of Commencement of Depreciation/Amortization | | |
|---|---------------------------------|---|
| Problem Contributing Factors | Task Force Member Agency | Agency Practice |
| Obtaining evidence to support the determination of commencement of amortization | A | Open inter departmental communication facilitates decision to begin depreciation of software. |
| | B | A sign off document confirming key development milestones such as acceptance test are met. |
| | C | A certificate of production is issued communicating the software is in production and being utilized. |

Illustration Sample #3: Enhancement to IUS

| Problem Statement: Define Enhancement to Internal Use Software | | |
|--|---------------------------------|---|
| Problem Contributing Factors | Task Force Member Agency | Agency Practice |
| Determination of the significance of an enhancement to the IUS; incremental enhancement of capability; and the enhancement associated with new IUS development model | A | Defines enhancement to be the replacement, upgrade, modification, or addition of new features or capabilities to an existing system, product, tool, service, or infrastructure to improve its functionality. It involves a change in the capabilities, requirements, design, and/or architecture. |
| | B | Add additional capabilities and the enhancement costs are above agency's capitalization threshold. Repair a design flaw or perform minor upgrades that extend the useful life without adding capabilities, the costs are expensed and the useful life of the original asset is adjusted, as necessary. |
| | C | Enhancement cost exceed capitalization threshold, and when it is more likely than not that such enhancements will result in a significant increase in functionality that is apparent to the user. The cost of routine or minor changes or modernizations that do not significantly add functionality should be expensed in the period incurred. Examples of minor enhancement include updating data tables, web-enabling, customizing reports, or changing graphic user interfaces. Enhancements that may extend the useful life of the software without adding significant capabilities are to be considered minor and expensed. |
| | D | In Agile development model, enhancement follows the same capitalization criteria threshold for each release separately and tracks each version individually. |

Illustration Sample #4: Impairment to IUS

| Problem Statement: Determination of Impairment for Internal Use Software | | |
|---|--|--|
| <i>Problem Contributing Factors</i> | <i>Task Force Member Agency</i> | <i>Agency Practice</i> |
| Determination of when the impairment is incurred without sufficient knowledge on the IUS operating status | A | Scenario-based impairment checklist reviewed on a quarterly basis to monitor impairment. The checklist examines the following scenarios: cessation of demand for the IUS asset, changes with an adverse effect on the IUS asset have occurred within the policy, legal or technological environment, plans to discontinue or restructure the IUS asset, the IUS asset is not performing as intended, and elements of the IUS asset functionality are not used as intended. |

APPENDIX C: ABBREVIATIONS

| | |
|----------|---|
| AAPC | Accounting and Auditing Policy Committee |
| COTS | Commercial off The Shelf |
| DHS | Department of Homeland Security |
| DOC | Department of Commerce |
| DOD | Department of Defense |
| DOL | Department of Labor |
| DOT | Department of Transportation |
| EPA | Environmental Protection Agency |
| FASAB | Federal Accounting Standards Advisory Board |
| GAAP | Generally Accepted Accounting Principles |
| HHS | Department of Health and Human Services |
| IT | Information Technology |
| IUS | Internal Use Software |
| NIST | National Institute of Standards and Technology |
| ODNI | Office of the Director of National Intelligence |
| OMB | Office of Management and Budget |
| PP&E | Property, Plant, and Equipment |
| QA | Quality Assurance |
| RFI | Request for Information |
| RFP | Request for Proposal |
| SEC | United States Securities and Exchange Commission |
| SFFAS | Statement of Federal Financial Accounting Standards |
| TR | Technical Release |
| Treasury | Department of Treasury |

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Curt Nusbaum, Transportation Security Administration, Task Force Co-Chairperson

Susan Jennings, CACI, Task Force Subgroup Leader
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Department of Defense (DOD) (including the individual military departments)
Department of Health and Human Services (HHS)
Department of Homeland Security (DHS)
Department of Labor (DOL)
Department of Transportation (DOT)
Department of Treasury (Treasury)
Environmental Protection Agency (EPA)
Office of the Director of National Intelligence (ODNI)
United States Securities and Exchange Commission (SEC)

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