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,

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:

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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.