

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....

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**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.