

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

Grace,

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

Wendy

Questions for Respondents

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

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

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

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

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

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

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

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

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

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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.

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Other Technical Release Comments from DHS:

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

Questions for Respondents

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

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

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

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

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

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

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

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

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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.

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****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.