



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 long horizontal stroke at the end.

Andrew C. Lewis
FISC Chair