



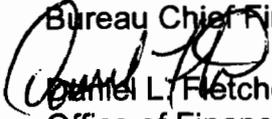
United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

AUG 12 2004

Memorandum

To: Bureau Chief Financial Officers

From:  Daniel L. Fletcher, Associate Director-Financial Statements & Systems
Office of Financial Management

Subject: Capitalization of FBMS Costs

In accordance with the requirements of Statement of Federal Financial Accounting Standards (SFFAS) #10, "Accounting for Internal Use Software," the Department will capitalize the costs to purchase and implement the Financial and Business Management System (FBMS).

Accounting Guidance

SFFAS #10 identifies three phases of software development, the "preliminary design phase," the "software development phase," and the "post-implementation/operational phase." Only costs incurred during the software development phase are capitalized. For FBMS, the software development phase is considered to begin when the contract was awarded to Bearing Point, and continue at each bureau until the bureau's implementation date. This date, referred to as the "Go Live" date, is considered to be the date when final acceptance testing is successfully completed.

Costs Included and Excluded from Capitalization

According to SFFAS #10, the capitalizable costs of purchased software include: (a) the amount paid to the vendor for the software; (b) amounts paid to a contractor to design, program, install, and implement the software; and (c) material internal cost incurred to implement the commercial off the shelf (COTS) or contractor-developed software and otherwise make it ready for use (SFFAS #10, paragraph 18). The policy below focuses primarily on the calculation of "material internal costs."

Bearing Point Costs

In general, amounts paid for the purchase of the software and consulting services from Bearing Point are to be capitalized. The primary exception is that

costs related to data conversion are not capitalized. Specifically, paragraph 19 of SFFAS #10 states:

"All data conversion costs incurred for internally developed, contractor developed, or COTS software should be expensed as incurred, including the cost to develop or obtain software that allows for access or conversion of existing data to the new software. Such cost may include the purging or cleansing of existing data, reconciliation or balancing of data, and the creation of new/additional data."

Accordingly, the contract costs related to data conversion and data clean-up must be estimated and excluded from capitalized amounts. The Project Management Office (PMO) will work with Bearing Point to determine the portion of contract costs to be excluded from capitalization. All other costs paid to Bearing Point for software and consulting services will be capitalized.

DOI Costs

A large portion of the Department's costs will be incurred by the PMO. Accordingly, except as noted below, all costs incurred by or charged to the PMO will be capitalized, including salaries, related benefits, and travel costs of PMO personnel, Bureau Leads, and other bureau representatives charged to the PMO. In addition, space, supplies, and other costs of the two PMO offices will be capitalized.

Since the role of PMO personnel is the overall system implementation, no distinction will be made for data conversion versus implementation, unless an individual is assigned a specific, long-term project or responsibility related to data clean-up and conversion. In this case, an estimated amount for salaries and benefits will be expensed rather than capitalized, based on approximate number of hours spent on the data conversion project. Likewise, travel expenses identifiable to data conversion will be expensed.

Bureau Leads and Functional Area Leads are generally assigned full time to FBMS during the blueprint phase. In addition, the Bureau Leads will generally be assigned full time during the year prior to bureau implementation. Costs incurred by Bureau Leads when not assigned to the project between the blueprint phase and bureau implementation phase will not be capitalized. The costs associated with most Bureau Leads and Functional Leads are paid by the PMO via reimbursable agreements. The amounts paid under these reimbursable agreements will be capitalized, unless adjustment is necessary for data conversion activities. The portion of time related to data conversion activities will normally be estimated based on the PMO's detailed project schedule. Capitalizable Bureau Lead and Functional Area Lead costs not covered by reimbursable agreements may either be accumulated in the same manner as Subject Matter expert costs paid by bureaus (i.e. specific or estimated hours) or

based on an assumption of full time assignment to the FBMS project, as long as that assumption is reasonable.

A bureau's "Go Live" date is considered to be the date at which final acceptance testing has been successfully completed for that bureau. After this date, costs associated with the Bureau Lead, and other costs related specifically to that bureau are expensed. However, in the unusual event that a bureau implements an entire module after the "Go Live" date, costs associated that module would continue to be capitalized until final acceptance testing is completed on that module.

Salary, benefit and travel costs associated with Subject Matter Experts, Technical / Interfacing Systems Team members, and active Workshop participants are generally paid by the bureaus. The salary portion should be accumulated based on hours worked (either specific identification or periodic estimations). Benefit costs will be derived using the bureau's standard benefit / overhead rate. Note, it is understood that the specific components of the overhead rate may vary between bureaus. However, identification of a different rate for FBMS is not considered to be cost effective, thus the existing bureau benefit /overhead rates should be applied by each bureau. Costs of senior management oversight will not be capitalized. Likewise, costs of persons incidentally associated with FMBS need not be identified and capitalized. For example, persons not normally assigned to the FBMS project might attend informational meetings or workshops to gain an understanding of the system and Departmental direction. Costs associated with these employees need not be capitalized. This determination will be made by the bureau. These distinctions are based on the accounting guidance that limits the capitalization of internal costs to those that are material to the project as a whole.

Since FBMS is a single Departmental system, capitalizable costs identified per this memorandum will be capitalized regardless of whether the costs reach the \$100,000 threshold at the bureau level.

Summary of Capitalizable Costs:

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| A. | Program Sponsors (L. Scarlett & N. Hatfield) | No costs will be capitalized |
| B. | Program Directors (D. Sonderman & S. Leshner) | No costs will be capitalized |
| C. | Project Management Office: - Project Manager, - Chief Technologist, - Business Applications Mgr., - Change Management Lead, - Project Support | -- All costs of the Project Management Office are capitalized, including salaries, related benefits and travel costs of PMO personnel, space, supplies, and other costs of the two PMO offices (except as noted below). |

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|----|-----------------------|---|
| | | <p>-- Costs (salaries, benefits and travel only) associated with individuals assigned to specific, long-term data conversion projects will not be capitalized. These costs may be estimated based on the PMO's detailed project plan.</p> <p>-- Except as defined above, time spent on data conversion tasks at the PMO level during the normal course of business is not severable from overall project oversight will not be separately identified or tracked. Space, supplies, and other costs likewise will not be separately identified. As a result, no deductions will be made to capitalized costs as a result of data conversion tasks incidental to management of the project as a whole.</p> |
| D. | Bureau Leads: | <p>-- This category applies to personnel assigned substantially full time to the FBMS project for a period of time.</p> <p>-- Bureau Leads are generally charged to the FBMS project via reimbursable agreement.</p> <p>-- Salary, benefits, and travel costs of Bureau Leads will normally be incurred and capitalized during the Workshop/Blueprinting phase and in the year prior to the bureau's "Go Live" date. Costs of Bureau Leads in the interim period when not assigned to the project will not be capitalized.</p> <p>-- Salary and benefits will generally be based on the reimbursable agreement costs, adjusted for estimated time devoted to data conversion tasks. These costs may be estimated based on the PMO's detailed project plan.</p> <p>-- Costs of space, equipment, supplies, etc., in employees' normal work environments will not be capitalized (unless these costs are included in the bureau's existing overhead rates).</p> |
| E. | Functional Area Leads | <p>-- This category applies to personnel assigned substantially full time to the</p> |

| | | |
|----|---|---|
| | | <p>FBMS project for a period of time.</p> <ul style="list-style-type: none"> -- Salary, benefits, and travel costs of Functional Area Leads will be capitalized for the period of time the employee is assigned to the project. -- Salary and benefits will generally be based on the reimbursable agreement costs, adjusted for estimated time devoted to data conversion tasks, if any. For employees not covered by reimbursable agreements, costs may be estimated based on an assumption of full time assignment to the project (if reasonable) or in the same manner as costs are accumulated for Subject Matter Experts. -- Costs of space, equipment, supplies, etc., in employees' normal work environments will not be capitalized (unless these costs are included in the bureau's existing overhead rates). -- No costs will be considered to be "data conversion" unless an employee is assigned to a specific, long term data conversion project. |
| F. | <p>Subject Matter Experts Technical / Interfacing Systems Team Other BluePrint Workshop Attendees</p> | <ul style="list-style-type: none"> -- Costs of salary, benefits, and travel associated with the FBMS project will be capitalized based on actual or estimated time spent on the FBMS project. -- Costs of space, equipment, supplies, etc., in employees' normal work environments will not be capitalized (unless these costs are included in the bureau's existing overhead rates). -- Costs (salary, benefits, and travel) attributable to data conversion projects will be excluded from capitalization. |
| G. | <p>Trainees, Other Bureau and Department Personnel</p> | <p>No costs will be capitalized.</p> |

Other

SFFAS #10 states that the following items will be expensed as incurred.

- 1) The cost of minor enhancements resulting from ongoing systems maintenance.
- 2) The purchase of enhanced versions of software for a nominal charge.
- 3) All data conversion costs, as noted above.
- 4) Costs incurred after final acceptance testing has been successfully completed. Where the software is to be installed at multiple sites, capitalization should cease at each site after testing is complete at that site. For DOI, this means that costs incurred at a specific bureau cease to be capitalized once a bureau "goes live."
- 5) Annual license maintenance costs and/or fees.

Recognition and Amortization of Capitalized Costs

Accounting Entries

FBMS will be capitalized by the Office of the Secretary. Capitalizable costs incurred by the PMO will be accumulated in SGL Account 1832, "Internal Use Software in Development." This will include the capitalizable portions of salary costs, PMO office costs and reimbursable agreements. Bureaus will account for reimbursable agreements and associated costs in the normal course of business, i.e., these costs covered by reimbursable agreements will not be capitalized at the bureau level. Costs incurred by bureaus not charged to the PMO will be accumulated by each bureau in SGL Account 1832, "Internal Use Software in Development" during the course of the year. These accumulated costs will be transferred to the PMO approximately one week prior to September 30, 2004, and at the end of each quarter thereafter.

Sample entries for the PMO and bureaus are provided below. Complete posting models for these transactions may be found in the DOI Standard Posting Models maintained by DOI's Standard Accounting Classification Advisory Team (SACAT).

Bureaus

1. Activity is charged to the FBMS project:

| | | |
|----|------|--|
| dr | 1832 | Internal Use Software in Development |
| cr | xxxx | Appropriate Fund Balance with Treasury or other appropriate account |

2. Accumulated balance of 1832 is transferred to the PMO

| | | |
|----|------|---|
| dr | 573C | Financing Transferred Out without Reimbursement - Capital Assets |
| cr | 1832 | Internal Use Software in Development |

Note: Budgetary transactions and transactions related to reimbursable agreements are posted in accordance with existing posting models.

PMO

1. Capitalizable costs are incurred by the PMO:

| | | |
|----|------|--|
| dr | 1832 | Internal Use Software in Development |
| cr | xxxx | Appropriate Fund Balance with Treasury or other appropriate account |

2. Accumulated balance of 1832 is transferred from the bureaus:

| | | |
|----|------|--|
| dr | 1832 | Internal Use Software in Development |
| cr | 572C | Financing Transferred In without Reimbursement - Capital Assets |

Capitalization and Amortization

Ultimately, the capitalized cost of FBMS will be recognized and amortized by the Office of the Secretary. This is a Departmental decision based on the fact that the Department is adopting a single system, this system is primarily centrally funded, and neither the system itself nor the costs associated with it can be split along bureau lines. The Department is monitoring the FASAB Exposure Draft regarding imputed costs. Based on the results of FASAB deliberations, the Department may decide that each bureau should recognize an "imputed" cost for FBMS costs capitalized by the Office of the Secretary. This issue will be addressed more fully when FASAB completes its deliberations.

Amortization of each module or component will begin when that module has been implemented and successfully tested. Accordingly, costs accumulated in account 1832, "Internal Use Software in Development" and attributable to a specific bureau will be moved to SGL account 1830, "Internal Use Software – Completed" as each bureau goes live. At the time the first bureaus reach this point, a decision will be made as to whether a portion of costs not attributable to a specific bureau should also be reclassified as "Completed". Costs incurred by a bureau after the "Go Live" date will be expensed.

The estimated useful life used for amortization will be consistent with that used for planning the software's acquisition, and is not addressed by this memorandum. Any additions to the book value or changes in useful life will be treated prospectively. Any such change will be accounted for during the period of the change and future periods. No adjustments should be made to previously recorded amortization.

Please contact Debra Carey on (202) 208-5542 or Debra_J_Carey@ios.doi.gov, if you have questions concerning this policy.