United States Department of the Interior

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Financial Statement Guidance Memo No. 2001-001

To: Bureau Chief Financial Officers
Assistant Directors for Administration

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Subject: Department of the Interior's Standard for Capitalizing the Cost of Internal Use Software

In June 1998, the Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards (SFFAS) Number 10, Accounting for Internal Use Software for reporting periods that begin after September 30, 2000. The Department is required to comply with this standard for fiscal year 2001.

Policy

The Department of the Interior will capitalize internal use software following the requirements of SSFAS Number 10 effective October 1, 2000. Costs incurred prior to October 1, 2000, whether capitalized or not, should not be adjusted to the amounts that would have been capitalized, had this statement been in effect when those costs were incurred.

Procedures

Following are the Departmental procedures for implementing SSFAS Number 10. Cost of internal use software, whether it is commercial off-the-shelf (COTS), contractor-developed, or internally developed, will be capitalized. The details regarding the types of cost elements to capitalize, the timing and thresholds of capitalization, amortization periods, accounting for impairment, and other guidance follow. The highlights of establishing the agency threshold, items expensed as incurred, capitalizable costs, and implementation are summarized below for your convenience.

Capitalizable Internal Use Software

Capitalizable internal use software includes COTS (e.g., commercially purchased), contractor-developed software (e.g., contractors hired to develop substantially all of the desired software), or internally developed software (e.g., software developed internally using your own employees, with or without a contractor's assistance).

Capitalization Thresholds

The Department of the Interior's capitalization threshold for software is $100,000 for individual, enterprise, and bulk purchases.

Capitalizable Costs

Internally Developed Software:

Capitalized cost should include the full cost (direct and indirect cost) incurred during the software development stage. Such cost should be limited to cost incurred after:

a. Management authorizes and commits to a computer software project and believes that it is more likely than not that the project will be completed and the software will be used to perform the intended function with an estimated service life of 2 years or more and;

b. The completion of conceptual formulation, design, and testing of possible software project alternatives (the preliminary design stage).

Such costs include those for new software (e.g., salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants' fees; rent; and supplies) and documentation manuals.

Purchased Software:

a. COTS Software: Capitalized cost should include the amount paid to the vendor for the software.

b. Contractor-developed Software: Capitalized cost should include the amount paid to a contractor to design, program, install, and implement the software. Material internal cost incurred by the federal entity to implement the COTS or contractor-developed software and otherwise make it ready for use should be capitalized.

These requirements do not apply to software that is an integral part of stewardship plant and equipment; e.g., part of a physical historic structure that is intended to be preserved

indefinitely. Within Interior this situation would be rare. * Software used to manage heritage assets would be capitalized. Likewise, software that is integral to stewardship investment programs, such as Research and Development and investments in Human Capital, would also be capitalized. These costs would be presented as Stewardship investments as the asset is amortized.

Tracking of Capitalized Costs

Capitalized internal software costs should be tracked and, once the threshold is met, the software should be recorded in the Bureau/Office Property Management System. Software below the $100,000 threshold may be tracked and controlled at the bureau/office discretion. Each Bureau/Office will capture information on all software valued at $100,000 or more electronically (i.e., spreadsheet or the Information Technology Investment Portfolio System (ITIPS) when it becomes available throughout the Department.)

Amortization of Capitalizable Costs

Software that is capitalized according to this standard should be amortized in a systematic and rational manner over the estimated useful life of the software. The estimated useful life used for amortization should be consistent with that used for planning the software's acquisition.

- For each module or component of a software project, amortization should begin when that module or component has been successfully tested. If the use of a module is dependent on completion of another module(s), the amortization of that module should begin when both that module and the other module(s) have successfully completed testing.

- Any additions to the book value or changes in useful life should be treated prospectively. The change should be accounted for during the period of the change and future periods. No adjustments should be made to previously recorded amortization. When replacing existing internal use software with new software, the unamortized cost of the old software should be expensed when the new software has successfully completed testing.

*NOTE: These requirements would also not apply to national defense property, plant, and equipment (PP&E) that includes (1) the PPE components of weapons systems and support PP&E owned by the Department of Defense or its component entities for use in the performance of military missions and (2) vessels held in a preservation status by the Maritime Administration's National Defense Reserve Fleet. However, this situation does not exist in the Department of the Interior.

Accounting Treatment for Other Related Internal Software Costs

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) Cost incurred solely to repair a design flaw or to perform minor upgrades that may extend the useful life of the software without adding capabilities.
4) Bulk purchases of software (e.g., multiple spreadsheet programs for a science center) may be converted to the unit price to decide if the purchased software should be capitalized. For example, if 10 copies of a software program were purchased for $200,000, then the unit price would be $20,000, and this software would not be capitalized. However, using this example, if the purchase price were $2,000,000, then the unit price would be $200,000, and this software should be capitalized in the aggregate.
   NOTE: License of COTS software packages with a short useful/service life (e.g., 2 years maximum) is always expensed, whether purchased in bulk or not.
5) All data conversion costs incurred for internally developed, contractor-developed, or COTS software, 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.
6) 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.
7) Annual license maintenance costs and/or fees.

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

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