

Financial Policies and Procedures
Accounting for Internal Use Software

CHAPTER 10

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1001 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures for determining and recording the value of internal use software (IUS). This chapter provides VA's criteria to determine the cost of IUS and whether it should be capitalized and recorded in VA's property records as an asset or charged as an expense. Accounting standards for IUS are prescribed in Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*. IUS is classified as "general property, plant and equipment" (G-PP&E), as defined in SFFAS No. 6, *Accounting for Property, Plant and Equipment*. IUS may be purchased as commercial off-the-shelf (COTS) software, developed by vendors or contractors or fully developed internally. The policies and procedures in this chapter apply to IUS, including programmatic and administrative software, used to perform VA's mission.

100101 IUS COST RECOGNITION, ACCOUNTING AND MEASUREMENT. VA will comply with IUS cost recognition, accounting and measurement outlined in SFFAS No. 6 and 10. The provisions of SFFAS No. 10 will not be applied to immaterial items. Recognition and measurement criteria for IUS are found in SFFAS No. 6, as amended.

100102 IUS CAPITALIZATION. VA will capitalize IUS which functions as a long-lived operating asset similar to other G-PP&E¹. VA will adhere to the guidance of FASAB and other regulatory bodies regarding the types of cost elements to capitalize during the software life cycle, the timing and thresholds of capitalization, amortization periods and accounting for impairments and enhancements. IUS will be capitalized if the estimated life of the software is at least 2 years and the cost is at least \$100,000. Other qualitative criteria for capitalizing IUS are contained in Appendix A.

100103 IUS FINANCIAL REPORTING AND DISCLOSURE. VA will comply with financial reporting and disclosure requirements promulgated by FASAB, Office of Management and Budget (OMB) and other regulatory bodies. Minimum disclosure requirements for IUS are described in SFFAS No. 6, SFFAS No. 10 and OMB Circular A-136.

1002 POLICIES

100201 IUS COST RECOGNITION, ACCOUNTING AND MEASUREMENT. VA will report its IUS based on historical cost information in accordance with the asset recognition and measurement provisions of SFFAS No. 6, as amended. VA will recognize IUS project costs and any major enhancement of existing IUS assets as capitalized assets, if they meet VA's capitalization criteria. Costs associated with upgrading existing operating systems, any impairment of IUS assets, data conversion costs during post-implementation/operational phases of an IUS project and costs

¹ For more detailed guidance on G-PP&E capitalization, refer to Volume V, Chapter 9, *General Property, Plant and Equipment*.

incurred after IUS acceptance testing will be expensed. VA will allocate the cost of any bundled purchases as either capitalizable or noncapitalizable.

100202 IUS CAPITALIZATION. VA will capitalize the cost of IUS, including enhancements, when such software meets the capitalization criteria for G-PP&E. During the development of IUS, direct, indirect and overhead costs will be allocated to the IUS project and recorded in an IUS Work-In-Process (WIP) account for future capitalization. VA will monitor IUS project costs and implement controls to identify and track costs for comparison to the associated budget. Coordination among the Finance Activity, the Office of Information & Technology (OI&T) and the IUS project/program manager is critical to the process for determining what IUS meets VA's capitalization criteria.

100203 IUS FINANCIAL REPORTING AND DISCLOSURE. VA will comply with the financial reporting and disclosure requirements contained in guidance from FASAB and OMB. VA will report IUS as part of G-PP&E in its consolidated balance sheet and classify the IUS components in footnote disclosures as IUS used in operations and IUS still in development. Minimum disclosure requirements for each major class of G-PP&E will be provided in VA's consolidated financial statements, in accordance with SFFAS No. 6, SFFAS No. 10 and OMB Circular A-136.

1003 AUTHORITY AND REFERENCES

100301 [Federal Accounting Standards Advisory Board \(FASAB\), Statement of Federal Financial Accounting Standards \(SFFAS\) No. 6, Accounting for Property, Plant and Equipment](#)

100302 [FASAB, SFFAS No. 10, Accounting for Internal Use Software](#)

100303 [FASAB, SFFAS No. 35, Estimating the Historical Cost of General Property, Plant and Equipment, October 14, 2009](#)

100304 [FASAB, Technical Release 5, Implementation Guidance on SFFAS No. 10: Accounting for Internal Use Software](#)

100305 [Office of Management and Budget \(OMB\) Circular A-130, Management of Federal Information Resources](#)

100306 [OMB Circular A-136 Financial Reporting Requirements](#)

100307 [Treasury Financial Manual, Volume 1, Part 2, Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government](#)

100308 [Department of Veterans Affairs, Financial Policies and Procedures, Volume V, Chapter 9, General Property, Plant and Equipment](#)

1004 ROLES AND RESPONSIBILITIES

100401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

100402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of Finance Activities, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

100403 OI&T provides strategy and technical direction and guidance to ensure IT resources are acquired and managed for VA in a manner that implements various Federal laws and regulations, including the Clinger-Cohen Act and OMB Circular A-130. OI&T is the steward of VA's IT assets and resources and is responsible for ensuring the efficient and effective operation of VA's IT Management System to meet mission requirements of the Secretary, Under Secretaries, Assistant Secretaries and other key officials. The Office for IT Resource Management within OI&T directs its financial management, human capital management, IT asset management, procurement activities of IT resources and links the budgeting process with IT programs. OI&T manages VA's separate IT appropriation account, as authorized in the Military Quality of Life and Veterans Affairs Appropriation Act of 2006, to ensure sustainment and modernization of VA's IT infrastructure.

100404 IUS Program Managers are responsible for providing information that accurately reflects the description of the project, status, stage (planning/development/steady state), useful life, threshold and milestone review of the project.

100405 VA Software and Development Projects should be obligated and paid through OI&T Office of Enterprise Development (OED) and the end of month accounting reconciliation process should be managed by the Finance Activity.

1005 PROCEDURES

100501 IUS COST RECOGNITION, ACCOUNTING AND MEASUREMENT. Recognition and measurement criteria for IUS, as part of G-PP&E, are in SFFAS No. 6, as amended by SFFAS Nos. 10, 23 and 35.

A. VA will report its IUS based on historical cost information in accordance with the asset recognition and measurement provisions of SFFAS No. 6, as amended, unless a specific circumstance occurs where a reasonable estimate of historical cost may be used to value the software, as authorized by SFFAS No. 35. VA may also use reasonable estimates, when appropriate, to revalue any previously reported IUS.

B. VA will capitalize the cost of an IUS project if it is classified as G-PP&E asset and meets the following criteria:

- Has an estimated useful life of 2 years or more;
- Meets VA's capitalization threshold requirements of \$100,000 or more;
- Has been acquired with the intention of being used or being available for use by VA;
- Is not intended for sale in the ordinary course of VA operations; and
- Occurs in the development phase of the software lifecycle.

C. VA will record the costs of IUS project development work into the standard general ledger (SGL) Account 1832, Internal-Use Software In Development. VA will charge IUS obligations to BOC 3124, Internal Use Software – Capitalized, to ensure the funds are accumulated properly in SGL 1832 for capitalization purposes. The Finance Activity will reconcile this SGL account during the end of the accounting month reconciliation process, along with its reconciliation of SGL 1720, Work in Process, using the FMS F762 report, Work in Process Report G/L 1832 (RVAWIPV). The Finance Activity will initiate communication with the appropriate IT staff, on a monthly basis, to discuss the balance in Work in Process and if any capitalization should occur.

D. OI&T, working in conjunction with the IUS Program Manager will provide the Finance Activity with final accumulated cost estimates of the project. Upon completion of the IUS project, the Finance Activity will transfer the accumulated costs to SGL Account 1830, Information Technology Software, at which time the amortization process will begin. The IUS asset is transferred from the acquiring appropriation to the appropriate Assets and Miscellaneous Accounts Fund. IUS assets in revolving and trust funds remain in the originating fund. IUS will be accounted for in an automated property accountability application. OI&T, working in conjunction with the Finance Activity responsible for the SGL and IUS Program Manager, will provide the accumulated cost of the project to be capitalized.

For details on the specific accounting transactions and recording of IT costs associated with the planning and development of IT Software, refer to Appendix B.

E. VA will use an estimated useful life for an IUS asset consistent with any used for planning the software's acquisition, when appropriate. OI&T in conjunction with the IUS project/program manager and the Finance Activity will work together to ensure the

appropriate useful life for the IUS is assigned. Capitalized software will be systematically amortized over the estimated useful life of the IUS. The Finance Activity will validate the calculation of amortization generated from the fixed assets subsystem (FAP) and ensure the amount is recorded monthly. The following factors will be considered in determining the useful life of IUS:

1. Legal, regulatory or contractual provisions limiting the maximum useful life of the asset;
 - a. Technological change (e.g., obsolescence);
 - b. Provision for renewal or extension altering a specified limit on useful life;
 - c. Effect of economic factors reducing the useful life; and
 - d. Impact of any improvements or enhancements in assessing the useful life.
 2. The useful life for software acquired or developed exclusively for research projects will be determined by the expected length of the research.
 3. When it is determined that software will be replaced because of new technology, the initial useful life established will be reduced to the remaining period of use.
- F. For each module or component of an IUS project, VA will begin amortization when the 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 will begin when both modules have been successfully tested.
- G. When IUS is replaced with new software, the unamortized cost of the old software will be expensed when the new software has been successfully tested. No adjustments will be made to the previously recorded amortization. Any additions to the book value or changes in useful life will be treated prospectively. The change will be accounted for during the period of the change and future periods.
- H. Enhancements normally require new software specifications and may require a change to all or part of the existing software specifications as well.
1. VA will capitalize the cost of enhancements to existing IUS (and modules) when it is more likely than not the enhancements will result in significant additional functionalities.
 2. VA will expense the cost of enhancements to existing IUS (and modules) resulting from ongoing systems maintenance in the period incurred (e.g., updating data tables, Web-enabling, customizing reports or changing graphic user interfaces).
 - a. If an enhancement modernizes an operating system, the costs are normally expensed because the user does not see a significant increase in functionality.

b. If costs are incurred solely for repairing a design flaw or performing minor upgrades that may extend the useful life of the software without adding new capabilities, the costs will be expensed.

I. VA will recognize and measure impairment when one of the following occurs and is related to post-implementation or operational software and/or modules:

- The software is no longer expected to provide substantive service potential and will be removed from service.
- A significant reduction occurs in the capabilities, functions or uses of the software (or a module thereof).

1. If the impaired software remains in use, VA will measure the loss from impairment as the difference between the book value and either (1) the cost to acquire software that would perform similar remaining functions (e.g., the unimpaired functions) or, if that is not feasible (2) the portion of the book value attributable to the remaining functional elements of the software. The loss will be recognized upon impairment and the book value of the asset reduced accordingly. If neither (1) nor (2) can be determined, the book value will continue to be amortized over the remaining useful life of the software.

2. If the impaired software is removed from use, VA will measure the loss from impairment as the difference between the book value and the net realizable value (NRV), if any. Typically, the NRV will be zero (0). The loss will be recognized upon impairment and the book value of the asset reduced accordingly. The NRV, if any, will be transferred to an appropriate asset account, until the software is disposed of and the amount is realized.

3. When VA concludes it is more likely than not that the developmental software (or a module thereof) will not be completed and placed in service, this fact will be conveyed to the Finance Activity. The related book value accumulated for the software (or the balance in a Work-In-Process (WIP) account, if applicable) is reduced to reflect the expected NRV, if any, and the loss is recognized. The following are indications where this conclusion may be reached:

- a. Expenditures are neither budgeted nor incurred for the project;
- b. Programming difficulties cannot be resolved on a timely basis;
- c. Major cost overruns occur;
- d. Information has been obtained indicating that the cost of developing the software will significantly exceed the cost of COTS software available from third party vendors and management decides to obtain the product from the vendor instead of completing the project;

- e. Technologies superseding the software product in development are introduced; or
- f. The organizational component for which the product was being created is being discontinued.

J. VA will expense all data conversion costs as incurred for internally-developed, contractor-developed or COTS software during the post-implementation/operational phase of the project, including the cost to develop or obtain software that allows for access or conversion of existing data to the new software. Such costs may include the purging or cleansing of existing data, reconciliation or balancing of data and the creation of new/additional data.

K. VA will expense costs incurred after final acceptance testing has been successfully completed, such as preventative maintenance and training. When the software is installed at multiple sites, capitalization will cease at each site after testing has been completed at each site.

L. When VA purchases IUS as part of a package of products and services (e.g., training, maintenance, data conversion, reengineering, site licenses and rights to upgrades and enhancements), VA will allocate the capitalizable and noncapitalizable cost of the package among individual elements on the basis of a reasonable estimate of their relative fair values. Costs that cannot readily be allocated between maintenance and relatively minor enhancements will be expensed.

M. VA may purchase Software-as-a-Service (SaaS). Through a licensing arrangement, a software vendor would deploy a software application with VA for use as a service on demand. The SaaS vendor could host the application on its own Web servers or upload it to a VA device, disabling it after use or after the on-demand contract expires. When VA acquires SaaS IUS and meets the following conditions, the purchase cost should be expensed and not capitalized:

- VA does not own the hardware and/or software;
- VA pays a monthly/quarterly fee for the service; and
- The service will terminate once payment stops.

N. VA will expense all costs associated with research and development on an IUS project when incurred. The testing of software does not, by itself, imply future operational use. However, if the decision is subsequently made to implement the IUS being tested, the policies and procedures in this chapter are applicable. The costs incurred to convert the software for operational will be tracked to determine the value of the software.

O. IUS that is integrated and necessary to operate G-PP&E will be considered part of the PP&E which it is an integral part for capitalization.

P. IUS rental, lease or license fee costs are incurred for acquiring computer programs, procedures, rules or routine, designed to make use of and extend the capabilities of IT equipment, these costs will be included in BOC 2324, *Software Rental and License Fees* and expensed (assuming such costs do not meet the capitalization threshold of \$100,000/2-year) to SGL Account 6100, *Operating Expense - General*. Refer to definition 100640 for a more detailed description of what is included and excluded from BOC 2324. If IUS is leased or license fee costs are incurred greater than the capitalization threshold and the estimated useful life is 2 years or more, BOC 2335, *Software Lease or License Fees – Capitalized*,² will be used and the capitalized cost will be transferred at the appropriate time to SGL Account 1830, *Information Technology Software*. See definition in section 1006 for more descriptive information on BOC 2335.

100502 IUS CAPITALIZATION.

A. VA will capitalize the cost of IUS when the software meets the criteria for G-PP&E, described in paragraph 100501B as well as in Volume I, Chapter 9, *General Property, Plant and Equipment*. When IUS is purchased as part of a package of bundled products and services (e.g., site licenses and rights to future upgrades and enhancements), VA will allocate the purchase amount between the capitalized portion and the expensed portion, based on a reasonable estimate of their relative fair market values.

1. Capitalized costs will be limited to costs incurred after:

- VA authorizes and commits to an IUS project and believes it is more likely than not that the project will be completed and the IUS will be used to perform the intended function with an estimated service life of 2 years or more; and
- The completion of conceptual formulation, design and testing of possible IUS project alternatives during the preliminary design stage.

a. The costs capitalized for enhancements to existing IUS (and associated modules) will occur only when it is more likely than not the enhancements will result in significant additional capabilities and the costs will equal or exceed VA's capitalization threshold. For example, when VA adds a capability or function to existing software for making ad hoc queries, the cost would be capitalized.

b. The costs associated with bulk purchase acquisitions of software programs (e.g., spreadsheets, word-processing programs and modules or components of a total software system) where the useful life is 2 years or more and the collective cost of the

² For information on capital lease liabilities and lease capitalization criteria, refer to Volume VI, Chapter 18, *Capital Lease Liabilities*.

purchase meets the capitalization threshold will be capitalized. For additional information on bulk purchases, refer to Volume V, Chapter 9, *General Property, Plant and Equipment*.

c. The capitalized costs for internally developed software will include the applicable direct, indirect and overhead costs incurred during the software development stage. Refer to section 1006 Definitions for an explanation of direct and indirect costs. Development costs may include salary and benefit costs associated with programmers, systems analysts, project managers and any other relevant resources involved with software development projects, such as administrative personnel, outside consultant fees, rent, supplies and documentation manuals. Costs for mass producing manuals will be expensed.

(1) OI&T, with the IUS program manager, should identify, track and report development costs (e.g., salary and benefits) to ensure capitalized costs are reported to the appropriate Finance Activity and the internally developed projects costs are recorded.

(2) The Finance Activity will identify appropriate individuals to receive the report to the OI&T and the IUS program manager. The report will be provided at a fixed time period (e.g., monthly or quarterly) and provide the Finance Activity with the information needed to log and track all salary costs by IUS project number.

(3) OI&T will review the salary cost report for any errors or other anomalies and notify the Finance Activity of any discrepancies that need to be cleared before the issuance of the next scheduled report.

(4) OI&T, with the IUS program manager, will provide the completed “final” report with total salary and benefit information to the Finance Activity at the same time OI&T provides notification that the IUS project has been completed and the IUS asset is ready for capitalization. The Finance Activity will compare the total capitalized salary and benefit cost information to OI&T records to ensure accuracy prior to the actual capitalization of software action.

(5) OI&T will identify, capture and allocate overhead costs for IUS assets so the costs may be capitalized at the proper time and the underlying asset may be properly valued. The Finance Activity will properly allocate all overhead and other indirect costs (e.g., contract administration) to the related IUS project’s WIP account.

i. OI&T will coordinate with the IUS program manager and maintain a tracking tool, (e.g., a spreadsheet), to identify costs incurred at the project/program level and provide the information to the Finance Activity. OI&T will provide the data to the Finance Activity on a fixed schedule (e.g., monthly or quarterly). The tracking tool will provide descriptive data such as project phase, transition dates and overall description.

ii. The Finance Activity will apply an allocation to the captured indirect costs based on the identification of appropriate overhead cost drivers. The allocation method will be used on a consistent basis.

d. The capitalized costs for COTS software will include the amount paid to the vendor for the software.

e. VA will record IUS development costs in SGL 1832, using BOC 3124 to capture obligation of funds to ensure the amounts are capitalized once the \$100,000 capitalization threshold is reached.

B. OI&T will assign and issue a unique identifier for each IUS project before approving obligations. Unique identifiers help in tracking of costs and in the subsequent asset capitalization. The unique identifier also aids in distinguishing not only between what should or should not be capitalized, but also between software development and enhancement projects. In addition, the unique identifier assists with the proper grouping of cost to specific projects.

1. Identifiers will be added to individual purchase orders to help identify the obligations for software components that will be recorded in SGL account 1832 for purposes of capitalizing the entire IUS project upon completion.

2. Identifiers will be established for all IUS projects that are determined to be capitalizable at project inception.

a. OI&T will determine the IUS identifier naming convention. A list of IUS project identifiers will be provided to the Finance Activity Office which processes IUS-related obligations.

b. Each IUS obligating document will contain the project identifier in the description field, the proper accounting string, the Budget Object Code (BOC) and the respective program, budget and contracting point of contacts (POC).

c. The Finance Activity will perform reconciliations of the IUS WIP account, research items as necessary, and capitalize or expense the items based on the research.

d. The selection of the correct Budget Object Class (BOC) is critical during the initial obligation stages, because it dictates how costs will be categorized (i.e., expensed vs. capitalized). BOC 3124 is the appropriate BOC for items requiring capitalization, the incorrect selection and data input of a BOC other than 3124 may negatively impact the treatment of the cost item. Using an incorrect BOC will result in an incorrect expensing and understatement of G-PP&E and an overstatement of operating and net program costs. OI&T will work closely with the IUS Program/Project Managers to ensure the appropriate BOCs are assigned.

e. The Finance Activity will return obligations coded to Internal Use Software-Capitalized (BOC 3124) without project numbers, as well as obligations with project numbers and not coded to BOC 3124.

Refer to Appendix C for a more detailed depiction of the IUS process from the initial purchase order and obligation creation to the final capitalization of the IUS.

C. The Finance Activity with the IUS program manager will monitor IUS project costs and implement controls to identify and track costs for comparison to the associated budget. The Finance Activity will ensure the IUS project meets VA capitalization thresholds and criterion when completed.

In order to properly track and compare costs, the Finance Activity, OI&T and IUS project managers will communicate on a regular bases (at least monthly). Communication may be in a written report, email correspondence or another effective manner of communication that provides the required cost information. The information communicated will include at a minimum, the project cost data, project status information and a cost analysis against the corresponding budget.

100503 IUS FINANCIAL REPORTING AND DISCLOSURE.

A. In accordance with OMB Circular A-136, VA will determine the major classes of G-PP&E to be reported in its consolidated financial statements. VA's major classes of G-PP&E, including internal use software, is provided in Volume V, Chapter 9, *General Property, Plant and Equipment*.

B. VA will report its IUS, as part of G-PP&E, in the comparative Consolidated Balance Sheets under Public Assets in VA's Performance and Accountability Report (PAR).

C. VA will include the following language in footnote 1 under Property, Plant and Equipment to the consolidated financial statements relating to significant accounting policies:

“Internal use software is also subject to the \$100,000 threshold for capital assets. The costs subject to capitalization, including design, development and testing are accumulated in Software in Development until a project is successfully tested and placed in service. The costs are amortized on a straight-line basis, and the amortization term is in accordance with the planned life cycle established during the software's planning phase.”

D. VA will disclose its IUS (SGL Account 1830 - Information Technology Software) and IUS-In Development (SGL Account 1832 – Internal-Use Software in Development) separately in the G-PP&E footnote to the annual consolidated financial statements in the PAR.

E. Minimum disclosure requirements for each major class of general PP&E, in accordance with SFFAS No. 6, SFFAS No. 10 and OMB Circular A-136, include the following:

- Cost, associated amortization and book value.
- Estimated useful life for each major class of software.
- Method of amortization.

F. When new FASAB or other regulatory guidance is prescribed, VA will make any necessary adjustments to existing G-PP&E, including IUS, in the period the new standards are implemented. In order to comply with the recognition and measurement criteria, VA will make all adjustments and disclose them by major class.

1006 DEFINITIONS

100601 Amortization. Amortization refers to expensing the acquisition cost minus the residual value of intangible assets in a systematic manner over their estimated useful economic lives so as to reflect their consumption, expiration, obsolescence or other decline in value as a result of use or the passage of time.

100602 Appropriate Individuals. Resources responsible for tracking, monitoring and recording of the capitalized costs of internal use software projects, such as staff accountants and their supervisors.

100603 Assets. Tangible or intangible items owned by the Federal Government which have probable economic benefits obtained or controlled by a Federal Government entity.

100604 Automated Data Processing (ADP) Software - Non-Capitalized (BOC 3134). Includes costs incurred for internal use software by VA, but does not meet VA's \$100,000 capitalization threshold. Internal use software may be commercial off-the-shelf software, internally developed software with or without a contractor's assistance or contractor-developed software. Costs are limited to those incurred after the point management determines it is more likely than not that the software project will be completed and used to perform the intended function. Software includes the application and operating systems, programs, procedures, rules and any associated documentation pertaining to the operation of a computer system or program.

100605 Book Value. The net amount at which an asset or group of assets is carried on the books of account (also referred to as carrying value or amount). It equals the gross amount of any asset minus any allowance or valuation amount.

100606 Budget Object Code (BOC). Categories in a classification system that presents obligations by the items or services purchased by the Federal Government.

100607 Bulk Purchase. Acquisition of software programs such as spreadsheets, word processing programs and modules or components of a total software system wherein the collective cost of the purchase meets the capitalization criteria.

100608 Capitalize. To record an expenditure or contribution which may benefit a future period as an asset rather than to treat the expenditure as an expense of the period in which it occurs. In general, expenditures subsequent to acquisition of the asset are capitalized only if they are material in amount and if they meet at least one of the following three conditions: (1) the useful life of the asset is increased as a result of the expenditure; (2) the quantity of units/services produced from the asset is increased; and (3) the quality of units/services produced from the asset is enhanced.

100609 Commercial Off-The-Shelf (COTS) Software. Products include software and hardware products ready-made and available for sale to the general public. COTS products are typically installed in existing infrastructure and do not require customization.

100610 Cost. The monetary value of resources used or liabilities incurred to achieve an objective. Costs may be charged to operations immediately or, in cases where the costs relate to goods or services that will benefit future periods, to an asset account for recognition as an expense of subsequent periods.

100611 Data Conversion Costs. 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 and/or additional data.

100612 Developed Software. Software developed internally or through the use of contractors. Internally-developed software refers to software VA employees are actively developing, including new software and existing or purchased software being modified with or without a contractor's assistance. Contractor-developed software refers to software VA is paying a contractor to design, program, install and implement, including new software and the modification of existing or purchased software without substantive employee involvement beyond contract monitoring. Contractor costs will be evaluated to determine whether the costs are to be expensed or capitalized.

100613 Direct Costs. Costs associated with the direct involvement of individuals on an IUS project to include material, direct labor, etc. Costs of direct labor for project teams (e.g., programmers, engineers, managers) are capitalized as part of the costs of the software project. Direct labor costs will be tracked by project managers and/or program managers and allocated to individual software projects. The allocation methodology will be consistent between projects and will be auditable.

100614 Disclosure. Reporting information in notes or narrative regarded as an integral part of the basic financial statements.

100615 Entity. A unit within the Federal Government (e.g., VA) for which a set of financial statements would be prepared. Entity also encompasses a group of related or unrelated commercial functions, revolving fund, trust funds and/or other accounts for which financial statements will be prepared in accordance with OMB's annual guidance of Form and Content of Financial Statements.

100616 Expense. Outflows or other using up of assets and/or incurrence of liabilities (or a combination of both) during a period from providing goods, rendering services or carrying out other activities related to VA's programs and missions, in which the benefits do not extend beyond the present operating period.

100617 Fair Market Value. The price a seller is willing to accept and a buyer is willing to pay on the open market. Fair market value is determined by an appraisal which derives valuation from assessing highest and best use and one or more of the following approaches: comparison sales, income capitalization and replacement value.

100618 Financial Management System (FMS). VA's accounting system, based on certified Commercial-off-the-Shelf (COTS) software, Federal Systems Integration Office (FSIO)-compliant system, with interfaces to all other VA payment and accounting systems.

100619 Fixed Assets Package (FAP) Subsystem. This subsystem is VA's fixed asset subsidiary ledger for financial operations. FAP maintains the original and subsequent value of assets and works with other FMS subsystems to support fiscal and risk management as well as standard reporting.

100620 General PP&E. Tangible assets which (1) have an estimated useful life of 2 or more years, (2) are not intended for sale in the ordinary course of operations and (3) are intended to be used or available for use by the entity.

100621 Immaterial Items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

100622 Indirect Costs. Costs typically associated with the cost (e.g., labor, non-labor) of a program management office responsible for overseeing more than one software project. In many instances, the office's indirect costs are immaterial when compared with the overall costs of a software project and if determined to be immaterial, will be expensed. Indirect costs will be expensed or capitalized, depending on their materiality to overall costs of individual software development projects and in which phase the costs were incurred. Decisions regarding the materiality of indirect costs, when such costs are expensed, will be justified, documented and will stand up to audit scrutiny. If

indirect costs are determined to be material to a software project or projects and are distributed to the capitalized costs of such project, the costs will be allocated based on a distribution methodology that is both documented and auditable.

100623 Information Technology Software (SGL 1830). The asset account used to record the capitalized cost of software, including COTS software, contractor developed software and internally developed software, subject to amortization.

100624 Integrated Funds Distribution, Control Point Activity, Accounting and Procurement (IFCAP). Financial and logistics functions for most VA facilities are handled by the IFCAP software, which is an application in the Veterans Health Information Systems & Technology Architecture (VistA). IFCAP automates certain functions in Acquisition & Materiel Management, Fiscal and in all of the services that request supplies on VA Form 90-2237. The primary goal of IFCAP is to integrate these three areas and allow the users to share ordering information.

100625 Internal Use Software. Internal use software may be COTS software, internally-developed software with/without a contractor's assistance or contractor-developed software. Software includes the application and operating systems, programs, procedures, rules and any associated documentation pertaining to the operation of a computer system or program.

100626 Internal Use Software – Capitalized (BOC 3124). The descriptive for the BOC used for costs incurred for internal use software. These software costs are limited to the costs incurred after the point management determines it is more likely the software project will be completed and used to perform the intended function. Software includes the application and operating systems, programs, procedures, rules and any associated documentation pertaining to the operation of a computer system or program.

100627 Maintenance. Expenses incurred to maintain an asset in a useable and acceptable condition which do not meet the criteria for capitalization. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components and other activities needed to preserve the asset to continue providing acceptable services and achieving its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than, those originally intended.

100628 Measurement. That which can be determined with reasonable certainty or is reasonably estimable.

100629 Net Realizable Value (NRV). The estimated amount recovered from selling or any other method of disposing of an item less estimated costs of completion, holding and disposal.

100630 Overhead Costs. Costs associated with utilities, building maintenance and supplies essential to the overall accomplishment of a software project. In many

instances, overhead costs are immaterial, when compared with the overall costs of a software project, and if determined to be immaterial, will be expensed. Decisions regarding the materiality of overhead costs, when such costs are to be expensed, will be justified, documented and will stand up to audit scrutiny. If overhead costs are determined to be material to a software project or projects and are to be distributed to the capitalized costs of such project, the costs will be allocated based on a distribution methodology that is both documented and auditable.

100631 Per Seat License. A software license based on the number of users who have access to the software. For example, a 100-user license based on users means up to 100 specially named users have access to the program. Per seat licensing is administered by providing user-level security to the directory containing the program.

100632 Project Management Costs. Costs, both direct and indirect, specifically associated with a particular project and are subject to capitalization. Direct cost includes direct labor amounts for individuals working directly on the project. Indirect cost includes program management costs representing indirect labor associated with an entire program consisting of several individual projects. The costs of program management and the administrative program management office that may be incurred during each phase of software development or acquisition project will be expensed or capitalized depending on their materiality to overall costs of individual IUS development projects and each phase and/or preponderance of development or acquisition work.

100633 Recognition. Recognition is the process of formally recording or incorporating an item into the financial statements of an entity as an asset, liability, revenue, expense or the like. A recognized item is depicted in both words and numbers, with the amount included in the statement totals. Recognition comprehends both initial recognition of an item and recognition of subsequent changes in or removal of a previously recognized item.

100634 Research and Development Costs. Refers to the costs incurred on IUS projects not likely to be capitalized due to the nature of the project and the intended future use of the software. The testing IUS does not necessarily imply future operational use. The useful life for software acquired or developed exclusively for research projects will be determined by the expected length of the research.

100635 Software. Software consists of the programs and applications run on computers. Because software runs on computer hardware, software programs often have system requirements listing the minimum hardware required for the software to run. Software also includes the application and operating systems, programs, procedures, rules and any associated documentation pertaining to the operation of a computer system or program.

100636 Software-as-a-Service (SaaS). Software-as-a-Service is a model of software deployment whereby a provider licenses an application to customers for use as a service on demand. SaaS software vendors may host the application on their own Web

servers or upload the application to the consumer device, disabling it after use or after the on-demand contract expires. The on-demand function may be handled internally to share licenses within a firm or by a third-party application service provider sharing licenses between firms.

100637 Software in Development (SGL 1832). The asset account used to record COTS software and also the costs incurred during the software development stage of internally developed software with/without a contractor's assistance and contractor developed software.

100638 Software lifecycle. Software lifecycle is generally divided into three phases: planning, development and operations. The planning phase consists of conceptual formulation, evaluation, testing of alternatives and selection of a specific alternative. The development phase includes configuration, coding, hardware installation and testing, including parallel processing. The operations phase includes data conversion and application maintenance.

100639 Software Lease or License Fees – Capitalized (BOC 2335). The lease or license of computer programs, procedures, rules or routines designed to make use of and extend the capabilities of ADP equipment when the term of the lease or license is at least two years or more and the cost exceeds \$100,000. Included are software maintenance services and technical support to correct defects, provide upgrades and advise on the use of existing features. Excluded is software designed to Government specifications or changes, enhancements or applications made to accommodate specific Government requirements.

100640 Software Rental and License Fees – Non-capitalized (BOC 2324). The rental, lease or license of computer programs, procedures, rules or routines designed to make use of and extend the capabilities of ADP equipment. Included are software maintenance services and technical support to correct defects, provide upgrades and advise on the use of existing features and annual license renewals for software. Excluded is software designed to Government specifications or changes, enhancements or applications made to accommodate specific Government requirements.

100641 Systems Analysis and Programming - Commercial Supplier (BOC 2515). The descriptive for the Budget Object Code used for costs associated with studies, analyses and evaluation costs incurred for internal use software. These costs are limited to the costs incurred prior to the point management determines it is more likely the software project will be completed and used to perform the intended function. BOC 2515 also includes costs incurred to convert data from a legacy system into the new placed-in-service internal use software.

100642 Useful Life. The operating life of an asset in terms of utility to the owner.

100643 Work in Progress (WIP). Temporary holding account used to track costs during the design and construction/development of Property, Plant and Equipment (PP&E) and represents an asset as part of the financial statements. The costs remain in WIP general ledger account until the PP&E has been constructively delivered and accepted by VA. WIP is an extension of real and personal accountable property; its costs accumulation is governed by the policy for G-PP&E.

1007 RESCISSIONS

100701 OF Bulletin 03GA1.05, Reconciliation of Internal Use Software in Development Acct. (SGL 1832)

100702 OF Bulletin 02GA1.02, FY 2002 SGL & Software Capitalization

100703 OF Bulletin 02GA1.09, Internal Use Software Capitalization Policy

100704 OFM Bulletin 97GA1.04, Off-the-Shelf Software Capitalization

1008 QUESTIONS

Questions concerning these financial policies and procedures should be directed as shown below:

VHA	VHA Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
OI&T	IT Comptroller (Outlook)
All Others	OFP Accounting Policy (Outlook)

APPENDIX A

Capitalization/Expense Classification Guidance – Information Technology

The following guidance will be used to determine what costs will be capitalized or expensed.

A. Capitalized Costs

1. The capitalized costs for internally-developed software include salaries of programmers, systems analysts, project managers and administrative personnel and associated employee benefits, outside consultant fees, rent, supplies and documentation manuals. In addition, individual obligation items below \$100K should also be capitalized if they are part of an IUS project meeting the combined capitalization threshold criteria.
2. The capitalized costs for commercial off-the-shelf (COTS) software include the amounts paid to the vendors.
3. The capitalized costs for contractor-developed software includes the amount to design, program, install and implement the software.
4. Internal costs incurred by VA to implement COTS or contractor-developed software will be included in the capitalized costs.
5. For capitalization, software integrated into and necessary to operate General PP&E will be considered part of the PP&E of which it is an integral part.
6. The acquisition cost of enhancements to existing internal use software will be capitalized when it is more likely than not that the enhancement will result in significant additional capabilities.

B. Expenses

1. Data conversion costs, whether for internally-developed, COTS or contractor-developed software will be expensed during the period incurred.
2. Costs incurred during the planning and operations phases will be expensed as general operating expenses.
3. Training costs incurred, regardless of whether the training is for a new project or recurring training, will be expensed.
4. Costs incurred only for repairing a design flaw or performing minor upgrades which may extend the useful life without adding capabilities will be expensed.

5. The cost of minor enhancements resulting from ongoing systems maintenance and the purchase of enhanced versions of software for a nominal charge will be expensed in the period incurred.
6. Costs for mass producing manuals will be expensed.
7. Costs incurred after final acceptance testing has been successfully completed will be expensed.
8. When VA purchases a package of bundled products and services, the costs that cannot be allocated between maintenance and relatively minor enhancements will be expensed.

APPENDIX B

ACCOUNTING AND RECORDING INFORMATION TECHNOLOGY COSTS FOR PLANNING AND DEVELOPMENT OF IT SOFTWARE

- A. All contractor planning phase costs of IUS will be recorded using Budget Object Class (BOC) 2515, Systems Analysis and Programming (Commercial Supplier). The assignment and inclusion of a project number for contractor costs will simplify the recordation process when the project moves to the developmental phase. Salaries and other costs will be posted in FMS with the BOC relevant to the reason for the costs (e.g., salaries and benefits are posted in the 11 and 12 BOC series).
- B. When a project enters the developmental phase, all costs identified as proper for recording as a contractual service will be entered as a new obligation with the project number and BOC 3124, Internal Use Software – Capitalized. Costs for the project for the developmental phase will be transferred quarterly to the project through the use of the proper FMS transaction. No other additional entries are required.
- C. To facilitate the accumulation of costs to be capitalized, each administrative staff office responsible for each qualified IUS project will maintain a labor distribution schedule (centrally) for VA employees working on each project. Related costs of life insurance, health insurance and retirement will be estimated as a percentage of salary. These benefits costs will be identified by a project number and transferred into SGL account 1832 using the proper FMS transaction.
- D. The administrative staff office will provide supporting documentation with the requested transactions to be posted into FMS and will also maintain a copy of the documentation within the office.
- E. The costs of an IUS project recorded in SGL account 1832 which do not meet the capitalization threshold after completion of the project will be expensed.
- F. For costs incurred prior to a decision being made to authorize and commit to the project, see BOC 2515 Definition 100629. IUS which does not meet the Department's capitalization criteria will use BOC 3134 Automated Data Processing Software – Non-Capitalized.
- G. For costs incurred after the decision is made to authorize and commit to the project, see BOC 3124 Definition 100620. On-going maintenance and operational costs for a system are recorded using BOCs 2507 through 2513.

H. The following transaction will be used to recognize a loss (write-off) for software costs incurred in prior fiscal years not capitalized:

<u>Debit</u>	<u>SGL Account Description</u>	<u>Credit</u>	<u>SGL Account Description</u>
7212	Loss on Disposal/Write-off PP&E	1832	Internal Use Software in Development

I. VA will use the following transaction to recognize a loss (write-off) for software costs incurred in the current fiscal years that were not capitalized:

<u>Debit</u>	<u>SGL Account Description</u>	<u>Credit</u>	<u>SGL Account Description</u>
6100	Operating Expenses	1832	Internal Use Software in Development

J. When VA's management commits to an IUS project, there is a need to maintain a proper segregation of obligations and costs for projects expected to meet the capitalization threshold (i.e., \$100,000 or greater) and those that should be immediately expensed (i.e., less than \$100,000). The following guidance should be followed to ensure proper accounting for IUS obligations and costs as the related projects proceed toward completion:

1. Project obligations should be entered into either BOC 3124 for those projects expected to equal or exceed \$100,000 or BOC 3134 for projects not expected to meet the capitalization threshold. These latter costs are expensed to SGL Account 6100.
2. The IUS project's unique identifier should be immediately associated with the BOC entry made in 1 above. In this way, obligations and costs will be accumulated and can be analyzed to determine their proper accounting treatment.
3. If it is subsequently determined the cumulative obligations entered into BOC 3134 for an on-going project will exceed the capitalization threshold or the project has been completed and the costs have already exceeded the threshold, proceed as follows:
 - If the project is on-going, the cumulative costs in BOC 3134 should be transferred to BOC 3124, where they will support the costs entered into SGL Account 1832, Internal – Use Software in Development. Once a project has been completed and the IUS has been successfully tested, the costs will then be transferred to SGL Account 1830, Information Technology Software.
 - If the project has been completed and the cumulative obligations have exceeded the capitalization threshold, the cumulative obligations in BOC 3134 should be transferred to the correct BOC 3124 the costs will then be transferred to SGL Account 1830, Information Technology Software.

- The transfer of obligations between BOC 3134 and 3124 will be recorded by an expenditure transfer.
4. If it is subsequently determined that the cumulative obligations entered into BOC 3124 for an on-going project that had been expected to meet or exceed the capitalization threshold but does not, or a completed project incurring costs less than the threshold, proceed as follows:
- If the project is on-going, the cumulative costs in BOC 3124 will be transferred to BOC 3134. Any costs entered into SGL Account 1832, Internal – Use Software in Development will be reversed and expensed to SGL Account 6100.
 - If the project is completed and the cumulative obligations do not exceed the capitalization threshold, the cumulative obligations in BOC 3124 will be transferred to the correct BOC 3134.
 - The transfer of obligations between BOC 3124 and 3134 will be recorded by an expenditure transfer as above.

APPENDIX C

SAMPLE IUS CAPITALIZATION PROCESS OVERVIEW (When IFCAP is used)

