



# Department of Veterans Affairs

## Financial Policy

### Volume V

#### Assets

### Chapter 13

## Accounting for Internal Use Software

Approved:

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### 1301 Overview

This chapter establishes the Department of Veterans Affairs (VA) financial policies for determining and recording the value of internal use software (IUS). IUS is software used by VA staff to meet operational needs. IUS can be developed by a contractor, developed internally, or acquired via purchase (commonly referred to as commercial off-the-shelf (COTS) software).

Generally accepted accounting principles (GAAP) require that VA identify and recognize the full costs associated with IUS through each phase of the software life cycle. VA's application of the Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 10, Accounting for Internal Use Software, provides guidance for the valuation of VA's Information Technology (IT) systems for financial reporting purposes. FASAB SFFAS No. 10 outlines three phases in the software life cycle: Planning, Development, and Operations. VA Chief Information Officer (CIO) mandates use of a Lean-Agile software development methodology named the Veteran-focused Integration Process which stipulates four phases in VA's software development life cycle: Initiation, Project, Product, and Close-out. A comparison of the two life cycles is included in the chapter.

VA will capitalize costs (e.g., salaries of personnel developing a piece of software or preparing technical manuals, cost of acquiring software, cost of project management efforts, etc.) incurred during the Development phase, as defined by FASAB SFFAS No. 10, and amortize them when:

1. The software has an estimated useful life of 2 years or more;
2. The total cost incurred in the software's Development phase meets or exceeds VA's capitalization dollar value threshold requirement of \$1 million;
3. The software has been acquired or constructed with the intention of being used or being available for use by VA; and
4. The software is not intended for sale in the ordinary course of VA operations.

This chapter is not applicable to software required for the operation of equipment which should be capitalized as a component of the equipment.

### 1302 Revisions

Section	Revision	Office	Reason for Change	Effective Date
1301 Overview	Update useful life definition to match PP&E definition	OFP (047G)	Align with SFFAS 6	February 2020
1305 Policies	Update useful life definition to match PP&E definition	OFP (047G)	Align with SFFAS 6	February 2020
Appendix D	Moved previous policy revisions table to an appendix	OFP (047G)	Improve readability	February 2020

### 1303 Definitions

**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.

**Assets** – Tangible or intangible items which have economic benefits over multiple accounting periods.

**Book Value** – The net amount at which an asset or group of assets is carried on the books (also referred to as carrying value). It equals the capitalizable cost of an asset minus any depreciation or valuation amount.

**Bulk Software Purchase** – A one-time acquisition of a quantity of software programs, or components of a total software system wherein the collective cost of the purchase is used to determine the accounting treatment rather than the individual price of each item.

**Capitalizable Costs** – Costs related to the asset which should be amortized over the asset's useful life.

**Capitalize** – To record an expenditure or contribution for a tangible asset which may benefit a future period as an asset rather than to treat the cost as an expense of the period in which it occurs.

**Close-out Phase** – This VIP phase occurs after final release of the IUS into production. This phase includes defect resolution (i.e., verification of defects, development and testing of patches and the release of patches into production).

**Cloud Computing** – Any service made available to users on demand via the Internet from a provider's servers as opposed to being provided through an intranet or internet connection to a server owned by the organization. Cloud services are designed to provide easy, scalable access to applications, resources and services, and are fully managed by a provider other than the using organization. Cloud computing services may include Infrastructure as a Service (IaaS), Platform as a Service (PaaS) or Software as a Service (SaaS).

**Component / Module** – A component (module) is part of an asset or larger system. For example, an entity may develop an accounting software system containing three modules (i.e., general ledger, accounts payable sub-ledger, and accounts receivable sub-ledger).

**Contractor-developed Software** – Software VA paid a contractor to design, program, install, and implement. This includes both new software and the modification of existing or purchased software without substantive VA employee involvement beyond contract monitoring.

**Critical Decision 1 (CD1) date** – the point at which a project's Planning phase has been completed and it proceeds into the Development phase. By CD1, a project should have its scope, schedule, resources, and acquisitions planned, along with any risks identified, funding secured, any IOC sites determined, and a completed Performance Work Statement (PWS).

**Development Phase** – This phase occurs when the design of chosen path, including software configuration happens. In addition, coding of the software, installation to hardware, and testing are all included in this phase. Costs incurred during this phase are capitalized and amortized over the useful life of the software.

**Direct Costs** – Costs directly attributable to a specific project or task (e.g. direct involvement of individuals on an IUS project to include their materials and labor costs).

**Enhancement** – A renovation, expansion, alteration, change, or reconstruction of an existing asset to improve or enhance performance which may or may not increase the asset's useful life.

**Full Cost** – Both direct and applicable indirect costs.

**Impairment** – A significant event or change in operating circumstances that warrants reduction of the carrying value of an existing asset. An assessment should be performed to determine the remaining useful life of the impaired asset for amortization purposes.

**Indirect Costs** – Costs that are not directly attributable to a specific project or task. Indirect costs may be either fixed or variable. Indirect costs may include overhead costs

as well as labor costs of a program management office responsible for overseeing more than one software project.

**Initiation Phase** – This VIP phase occurs when OIT validates, analyzes and confirms the request for new or enhanced IT capabilities. The phase includes researching viable solutions, and developing and documenting the high-level business requirements using Agile methodology and tools.

**Internally Developed Software** – See definition for Internal Use Software (IUS).

**Internal Use Software (IUS)** – Software that is developed internally, either with or without contractor assistance, solely to meet the Agency’s internal or operational needs. IUS includes contractor-developed software. Software includes application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system or program.

**Iteration** – A short-term process or step designed to achieve a desired goal, target, or result, the results of which can be used as the starting point for subsequent iterations.

**Lean-Agile Software Development Method** – A software development methodology in which requirements and solutions evolve through collaboration between self-organizing, cross-functional teams. In agile project development, software is developed in iterations that typically last one to eight weeks in duration. Initial planning regarding cost, scope, and timing is usually conducted at a high level, and the project status is primarily evaluated based on software demonstrations.

**Net Realizable Value (NRV)** – The estimated amount recovered from selling or any other method of disposing of an asset less estimated costs of disposal.

**Object Class (Budget Object Code (BOC))** – Categories in a classification system that present obligations by the purpose of the items or services purchased by the Federal Government.

**Obsolete Software** – Software that is no longer required or no longer functional due to significant reduction in capability, function or usefulness.

**Operations Phase** – This phase occurs post-implementation of the software and may include preventative maintenance, ongoing training for users, and data conversion.

**Overhead** – Utilities, rent, repairs, maintenance, insurance, legal fees, travel expenditures, supplies, etc., essential to the overall accomplishment of a specific project but benefitting multiple projects at the same time.

**Planning Phase** – This phase includes the development of the software requirements, conceptual formulation of alternatives, subsequent evaluation and testing of those

alternatives, and final decision of a vendor to obtain COTS software or to develop software internally.

**Product Phase** – This VIP phase includes build and development, release preparation, and release. Builds can be for development, IOC testing, release, or other activities depending on the project type. VA defines the end of a project's VIP Product phase as the cut off for capitalization purposes.

**Project Phase** – This VIP phase occurs when OIT begins planning to ensure a project is resourced correctly (e.g. funding, resources, and contracts). Costing and budget information is derived, and contract award and on-boarding of resources occurs in this phase.

**Veteran-focused Integration Process (VIP)** – VIP is a Lean-Agile Project Management Methodology (framework) that streamlines IT delivery oversight. Use of the VIP for all software development was mandated by the VA CIO.

**VIP Dashboard** – The interface used by VA Management to track internal use software projects through the VIP phases.

**VIP Phases** – There are four phases of VIP: Initiation, Project, Product, and Close-out. OIT classifies activities associated with development of IUS as occurring within one of the four defined phases based upon the activity type and when the activity occurs within the overall project timeline.

**Work in Process (WIP) (or Work in Progress)** – Temporary holding account used to track capitalizable costs during the Development phase of the software lifecycle.

### 1304 Roles and Responsibilities

**Under Secretaries, Assistant Secretaries, Chief Financial Officers (CFOs), Fiscal Officers, Chiefs of Finance Activities, Chief Accountants, and other key officials** are responsible for ensuring compliance with the policies set forth in this chapter, thus ensuring accurate and timely reporting of IUS accounting in VA's annual Consolidated Financial Statements.

**The Office of Information and Technology (OIT)** 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. OIT provides FSC with data necessary for capitalization, including but not limited to: unique identifiers, direct labor cost, indirect labor cost, other indirect and overhead costs, and project status. OIT shall have a standard operating procedure (SOP) and work group in place for IUS.

**Financial Services Center (FSC)** coordinates with the OIT and the IUS Project and Program Managers to ensure all costs for IUS projects are appropriately captured and are reported in a timely manner. FSC staff reviews costs supplied by OIT and prepares the accounting system entries required to properly record IUS.

**IUS Project and Program Managers** provide timely information to OIT and FSC that accurately reflects the description, status, phase (planning/development/operations), useful life, project life cycle cost, and critical decision points of the project. The IUS Project and Program Managers maintain records of changes to existing IUS, and communicates to FSC their significance, expected affect, and cost to VA.

## **1305 Policies**

### **130501 General Policies**

- A. VA will recognize and report full (direct and indirect) costs related to the planning, development, and operation of IUS in accordance with the asset recognition and measurement provisions of FASAB SFFAS No. 6 and SFFAS No. 10.
- B. VA will comply with the financial reporting and disclosure requirements of OMB A-136.
- C. Should VA financial systems not be capable of reporting the necessary opening balances as required by GAAP for financial statement reporting, VA will rely on guidance established in FASAB SFFAS No. 50, TR 17 and TR 18 to identify opening balances for IUS.

### **130502 Software Life Cycle**

- A. For financial reporting purposes VA will follow FASAB SFFAS No. 10, and FASAB Technical Release (TR) 16 – Implementation Guidance for Internal Use Software, when accounting for IUS project costs. This standard stipulates three phases in the software life cycle:
  - 1. Planning phase – includes those activities associated with the initial identification of functional requirements, conceptual design, evaluation of technical and acquisition alternatives, and formal executive approval for the project.
  - 2. Development phase – includes technical design, coding, installation, testing, and initial security accreditation and certification (to include component, unit, system integration, usability, quality assurance, and user acceptance testing).



3. Operations phase – includes transition to operational activities, security reaccreditation and recertification, as well as ongoing operations and maintenance
- B. For project management, the VA CIO has mandated the use of a Lean-Agile software development methodology called VIP, which stipulates four phases in VA's software development life cycle: Initiation, Project, Product, and Close-out.
1. VA aligns the four phases in VIP with the three phases stipulated by FASAB as follows:
    - a. Initiation phase – all activities in this VIP phase are included in FASAB's Planning phase.
    - b. Project phase – activities in this VIP phase which occur prior to the project's Critical Decision 1 (CD1) date are included in FASAB's Planning phase. Activities which occur after the CD1 date are included in FASAB's Development phase.
    - c. Product phase – all activities in this VIP phase are included in FASAB's Development phase.
    - d. Close-out phase – all activities in this VIP phase are included in FASAB's Operations phase.
  2. See [Appendix A: Veteran-focused Integration Process \(VIP\)](#) for more information on VIP.

### **130503 Capitalization**

- A. General Rule. VA will capitalize the cost of an IUS project and amortize it over the solution's useful life when:
1. The software has an estimated useful life of 2 years or more;
  2. The total cost incurred in the software's Development phase meets or exceeds VA's capitalization dollar value threshold requirement of \$1 million;
  3. The software has been acquired or constructed with the intention of being used or being available for use by VA; and
  4. The software is not intended for sale in the ordinary course of VA operations.
- B. VA will not capitalize:

1. Costs incurred in the Planning or Operations phases of the software life cycle;
  2. Costs associated with training, regardless of whether the training is for a new project or recurring training;
  3. Costs for the mass production of user manuals, with the exception of their initial costs of technical writing and publication which are capitalized;
  4. Projects with a total aggregate cost less than \$1 million;
  5. Software with an estimated useful life less than 2 years; or
  6. Costs associated with data conversion, migration and cleansing.
- C. Useful Life. Useful life for capitalization of an IUS asset is determined during the Planning phase of the project and is based on the length of time the IUS is expected to have economic benefit or service potential. The decision on useful life should be documented and made with input from personnel familiar with the software’s technical characteristics and its planned use. Legal, regulatory, or contractual provisions (e.g. obsolescence, provisions for renewal or extension altering a specified limit on useful life, effect of economic factors on reducing useful life, etc.) should be factors addressed in the decision-making process. When the Development phase is successfully completed, capitalized software will be systematically amortized over its useful life.
1. VA limits IUS Project and Program Managers to assigning one of the following useful life categories: 4 years, 5 years, 7 years, 10 years, 15 years, or 20 years. VA will not assign a useful life greater than 20 years. In making the decision on useful life, IUS Project and Program Managers should apply the following criteria:

<b>Life Expectancy</b>	<b>Criteria</b>
4 years	Use when, due to rapidly changing technology, the application is considered an interim fix or that the developer is in the process of ending support for the product and the application is expected to be in service for two to four years.
5 years	Use when an application is expected to be in service for more than four, but less than seven years.
7 years	Use when an application is expected to be in service for seven to nine years.
10 years	Use when an application is expected to be in service more than nine and less than twelve years.
15 years	Use when an application is expected to be in service more than twelve and less than seventeen years.

	Potentially a legacy product expected to satisfy needs in the long-term.
20 years	Use when an application is expected to be in service for seventeen years or more. To only be used for those projects which are expected to satisfy multiple long-term needs of the agency and which will be used potentially in perpetuity.

2. The useful life for software acquired or developed exclusively for research projects will be determined by the expected length of the research.
- D. OIT is responsible for notifying FSC when the Development phase for a specific project has been completed, however, FSC will regularly monitor the progress of IUS projects in the VIP Dashboard. FSC may proactively identify IUS projects nearing the scheduled completion of the Development phase and request additional information needed for capitalization purposes.
  - E. FSC, working with OIT and the IUS Project and Program Manager(s), will reconcile the aggregate costs incurred during the Development phase to ensure the IUS project meets capitalization criteria. To ensure timely reporting, FSC will process all necessary accounting entries by the end of the month following the month in which the Development phase was completed.
  - F. In VIP, an iteration is treated as an individual IUS project. However, for purposes of capitalization, a number of dependent iterations developing a new or enhanced process or function will be grouped together and treated as one asset for capitalization purposes.
  - G. Software that is an integral part of equipment should be capitalized as a component of the equipment. In situations where software and the hardware on which it runs have independent service lives, VA will determine the useful life of the software independently of the useful life of the hardware. The rationale for this determination should be documented. See [Volume V, Chapter 9 – General Property, Plant, and Equipment](#) for guidance on accounting for software required for operation of equipment.
  - H. Bulk software purchase. When a bulk software purchase meets the criteria for capitalization, VA will capitalize the payments to vendor(s) as well as internal costs incurred by VA to implement the software.
  - I. Commercial off-the-shelf (COTS) and Contractor-developed software. VA will capitalize payments to vendor(s) as well as internal costs incurred by VA to implement COTS and contractor-developed software when the solution meets the capitalization criteria. When VA purchases COTS or contractor-developed software 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 non-capitalizable cost of the package among individual elements on the basis of a reasonable estimate of their fair market values. Costs that cannot readily be allocated between maintenance and relatively minor enhancements will be expensed.

- J. Cloud computing. If a cloud computing arrangement includes a software license, VA will account for the software license element of the arrangement consistent with the acquisition of other software licensing fees (see *L, Rental, lease and/or licensing fees*). Otherwise VA will expense costs related to cloud computing as VA does not own the hardware and/or software, pays a monthly/quarterly/annual fee for the service, and the service will terminate once payment stops.
- K. Interagency and commercial shared services. For interagency and commercial shared services, where another Federal organization or non-Federal entity provides VA services, the provider will account for the software asset in accordance with their organizations capitalization policies and VA will expense all related costs. However, if VA has the contractual right to take possession of the software at any time during the hosting period without significant penalty, it is feasible for VA to either run the software on its own hardware or contract with a third party to host the software, and the software meets the criteria for capitalization defined in this chapter, then VA will recognize the cost and capitalize the cost of the software. If the shared service arrangement includes a software license, VA will account for the software license element of the arrangement consistent with the acquisition of other software licensing fees (see *L, Rental, lease and/or licensing fees*).
- L. Rental, lease and/or licensing fees. Capitalization of rental, lease and/or licensing fees is dependent on the terms of its purchase and use. A perpetual license (i.e., a license with an upfront cost to use the software for its entire lifetime) will be capitalized when it meets the capitalization criteria established in this chapter.<sup>1</sup> IUS lease or licensing fees for software with a term of two years or more with periodic payments will be evaluated using criteria established in [Volume VI, Chapter 18 – Capital Lease Liability](#) and treated as either a capital or operating lease. All other rental, lease or license fee costs associated with IUS will be expensed in the period incurred.
- M. Costs related to abandoned software development projects, or projects that are determined “not likely to be completed and placed in service,” will be expensed. Previously capitalized expenses will be recognized as a loss when the project is abandoned. The following are indications of an abandoned project:
- Expenditures are neither budgeted nor incurred for the project;
  - Programming difficulties cannot be resolved on a timely basis;
  - Major cost overruns;

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<sup>1</sup> The cost could be charged as a one-time payment or financed over a set period of time.

- Information has been obtained indicating that the cost of developing the software will significantly exceed the cost of COTS software and management decides to obtain the product from the vendor instead of completing the project;
- Technologies superseding the software product in development are introduced; or
- The organizational component for which the product was being created is being discontinued.

#### **N. Enhancements**

1. VA will capitalize the cost of enhancements to existing IUS, and its modules, when it is likely that the enhancements will result in significant additional functionality and they meet the capitalization criteria.
2. VA will expense the cost of minor enhancements to existing IUS, and its modules, which do not meet the capitalization criteria, in the period incurred. Minor enhancements are those that are unlikely to result in significant additional functionality, regardless of the amount spent on the enhancement.

#### **O. Impairments and Removal of IUS**

1. VA will recognize an impairment to existing IUS when either the software is no longer expected to provide substantive service potential and will be removed from service, or a significant reduction occurs in the functionality or uses of the software (or a module thereof). VA will appropriately calculate and recognize any loss at time of impairment and reduce the book value of the asset accordingly.
2. For IUS deemed obsolete and removed from use, VA will eliminate the asset's acquisition cost and associated accumulated depreciation/amortization from the station's account, and will record the asset at its net realizable value (NRV). Any existing NRV should be transferred to an appropriate asset account until disposition occurs. Upon final disposal, the asset will be written off from the financial records.
3. If it is determined that existing IUS will be replaced with new software, the initial useful life established for the IUS being replaced will be reduced to the remaining period of use. VA will expense the unamortized cost of the old software when the new software has been successfully implemented.
4. 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.

#### **130504 Tracking and Communication**

To properly track and compare capitalizable costs, IUS Project and Program Managers, OIT, and FSC independently and collectively track costs and communicate with each other on a regular basis (at least monthly). Communication may be in a written report, e-mail correspondence, or another effective manner of communication. The information communicated will include, at a minimum, the project status information and the project cost data.

**A. IUS Project and Program Managers will:**

- Monitor IUS project costs and implement controls to identify and track costs for comparison to the associated budget;
- Ensure that all obligating documents entered contain the appropriate unique project identifier and the proper accounting string (i.e., fiscal year, fund, cost center and BOC);
- Maintain a labor distribution schedule for VA employees working on each project;
- Review and reconcile the salary cost reports to identify any errors or other anomalies and notify FSC of these discrepancies and how to correct them prior to the issuance of the next scheduled report;
- Provide salary and direct overhead costs, by project, to the OIT and the FSC via Integrated Funds Distribution, Control Point Monitoring, Accounting and Procurement (IFCAP) system, VIP Dashboard and/or e-mail; and
- Annually, as part of the annual asset inventory process, conduct a review of all IUS assets included on the EIL Inventory report to determine whether an IUS asset has become obsolete.

**B. OIT will:**

- Advise VA staff on the VA CIO-mandated project management methodology, VIP, and maintain VIP Dashboard;
- Assign unique project identifiers;
- Ensure that all obligating documents entered contain appropriate unique project identifier and proper accounting string (i.e., fiscal year, fund, cost center and BOC);
- Furnish FSC with salary costs by project;
- Develop and maintain the formula(s) for calculating indirect overhead to be applied to projects; and
- Provide monthly indirect costs for OIT activities to the FSC.

**C. FSC will:**

- Identify individuals responsible for monitoring and recording capitalized costs of internal use software projects to work with the OIT and the IUS Project and Program Managers;

- Maintain a tracking tool (e.g., a spreadsheet) which provides descriptive data (i.e., current phase, transition dates, and overall description) and costs incurred by project;
- Compare the information provided by IUS Project and Program Managers to transactions in the accounting system of record to ensure accuracy prior to actual capitalization of software action;
- Return to the requestor in IFCAP obligating documents coded to *Internal Use Software (Internally Developed) – Capitalized* (BOC 3124) and *Internal Use Software (COTS) – Capitalized* (BOC 3132) without project numbers, as well as obligating documents with project numbers not coded to BOC 3124 or 3132;<sup>2</sup>
- Record salary costs to the accounting system of record;
- Properly allocate, on a consistent basis, all overhead and other indirect costs to the related IUS project's work in process (WIP) account;
- Supply OIT with a report detailing the allocation of monthly indirect costs, by project;
- Ensure the IUS project meets VA capitalization criteria when completed;
- Perform reconciliations of the IUS WIP account by project identifier, research items as necessary, and capitalize or expense the items no less than monthly based on the research; and
- Develop analytical procedures to assess the reasonableness of the IUS balance in USSGL account 1832.

### 130505 Accounting for Internal Use Software (IUS)

- A. VA will track the full cost of each IUS project throughout the software life cycle to ensure costs are appropriately recorded and reported. See [Appendix B: Examples of Capitalized Costs](#) for examples of project costs which should be tracked.
- B. VA will record the full cost, direct and indirect, of an IUS project incurred during the Development phase in United States Standard General Ledger (USSGL) account 1832, *Internal-Use Software in Development*, using specific budget object codes.
  1. Direct costs, including labor for project teams (e.g., programmers, engineers, managers), will be consistently tracked, allocated and capitalized as part of the costs of the individual software projects.
  2. VA will track, allocate, and capitalize indirect costs, which include overhead and costs of administrative and security personnel, as part of the costs of the individual software projects. Allocation of indirect costs to each individual

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<sup>2</sup> Requests and obligations for costs associated with IUS projects to be capitalized will be assigned an appropriate BOC at creation. See [Volume XIII, Chapter 2 - Budget Object Codes](#) for current BOCs. The FSC will work closely with the IUS Project and Program Managers to ensure the appropriate BOCs are assigned.

software project will be based on a methodology that is both documented and auditable.

- C. VA FSC will reconcile USSGL account 1832 during the end of the accounting month reconciliation process and capitalize projects as required.
- D. The OIT will define a standardized naming convention for IUS projects and assign unique identifiers for each IUS project. IUS Project and Program Managers will use the unique identifiers when establishing obligations and allocating costs to projects.
- E. IUS Project and Program Managers will report the CD1 date and the completion of the VIP Product phase within three business days of their respective occurrences.
- F. All costs associated with the development (design, building, and documentation) of the software will be identified throughout the life of the project, when management authorizes and commits to an IUS software project or enhancement 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 a useful life of two years or more.
- G. See [Appendix C: Recording IUS Costs](#) for additional guidance on tracking costs.

### **130506 Documentation for Financial Reporting and Disclosure**

- A. FSC, OIT, and each VA Administration and Staff Office will maintain records of IUS assets.
- B. Electronic or hardcopy documentation will be maintained for both capitalized IUS-related actions and expensed non-capitalized activities. Basic documentation will be maintained for the life of the asset and for three years after disposal or transfer of the asset, as required by VA's Records Management Directives and Handbooks (6300 series) and the applicable National Archives and Records Administration (NARA) General Records Schedules (GRS)<sup>3</sup>. Documentation should support the cost of each asset, the VIP Close-out phase start date, the useful life of the asset, and any subsequent enhancement, impairment or removal from service which has impacted the recorded value of the item.

### **1306 Authorities and References**

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

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<sup>3</sup> National Archives Records Management Information Page, General Records Schedules; available from <https://www.archives.gov/records-mgmt/grs>



FASAB, SFFAS No. 10, Accounting for Internal Use Software

FASAB, SFFAS No. 50, Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35

FASAB, Technical Release (TR) 16, Implementation Guidance for Internal Use Software

FASAB, TR 17, Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment

FASAB, TR 18, Implementation Guidance for Establishing Opening Balances

Office of Management and Budget (OMB) Circular A-130, Management of Federal Information Resources

OMB Circular A-136, Financial Reporting Requirements

Treasury Financial Manual, Volume 1, Part 2, Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government

VA Office of Information and Technology (OIT), Enterprise Program Management Office (EPMO), VIP Business Office SharePoint

Volume V, Chapter 9 – General Property, Plant, and Equipment

Volume XIII, Chapter 2 – Budget Object Codes

### **1307 Rescissions**

Volume V, Chapter 13 – Accounting for Internal Use Software, dated March 2019.

### **1308 Questions**

Questions concerning these financial policies should be directed to the following points of contact:

VHA	VHA 10A3AAccounting Policy (10A3A) (Outlook)
VBA	VAVBAWAS/CO/OPERATIONS (Outlook)
NCA	NCA Construction Finance (Outlook)
OIT	VACO IT Accounting (Outlook)
FSC	VAFSC OIT Fiscal Section(116) (Outlook)

VIP Business Office  
All Others

VA VIP (Outlook)  
OFP Accounting Policy (Outlook)

## Appendix A: Veteran-focused Integration Process (VIP)

The Office of Information and Technology (OIT), Enterprise Program Management Office (EPMO) is responsible for providing the support for processes and tools so OIT can implement IUS projects at VA. Projects or products that touch VA's network, or spend money from VA's Congressional IT Appropriation or any other appropriation, will use VIP to plan, develop, and implement IUS.

VA uses VIP to increase the speed of delivering high-quality, secure, sustainable IT capabilities to Veterans. VA deployed project management software and the VIP Dashboard to:

- Assist the governance process of VA's IT investments in achieving their intended outcomes on time and within budget while also meeting Veterans' needs;
- Support VA's mission and business objectives, and offer the appropriate security and privacy protections; and
- Conform to legislative mandates and Office of Management and Budget (OMB) requirements for IT investment management.

EPMO publishes a VIP Guide which provides direction, procedures, and processes that project managers will follow for successful IT project management within VA. The Guide serves as a reference for VIP policies, definitions and procedural regulations for the VA and OIT community.

More information on the VIP, including the Dashboard and Guide, are available on EPMO's VIP SharePoint site:

<https://vaww.vaco.portal.va.gov/sites/OIT/epmo/vip/Pages/HomePage.aspx>

## Appendix B: Examples of Capitalized Costs

### A. Examples of capitalized costs for internally developed software projects:

1. Salaries and fringe benefit costs, including overtime, for all personnel directly involved in the project. Such personnel include project managers, analysts, programmers, and testers.
2. Outside consulting fees.
3. Rent directly associated with the project.
4. Supply costs from the CD1 date through completion of the VIP Product phase.
5. Hardware, if procured specifically for the project and not part of the existing infrastructure.
6. Documentation, including technical writing, on-line help, and production costs of user manuals created from the CD1 date through completion of the VIP Product phase to document the system, if printed.

### B. Examples of capitalized costs for COTS software projects:

1. Amount paid to vendor(s) for the application, modification to COTS design, testing, and related costs.
2. Costs of space and/or supplies, if vendor is housed on-site.
3. Hardware to operate the new software if separate and apart from existing infrastructure.
4. Cost incurred to implement the software, including travel, project management, and management oversight.

Where a vendor has bundled software with maintenance services, the cost should be allocated based on a reasonable estimate. If the software meets capitalization criteria, it should be capitalized in the general ledger (maintenance services should always be expensed). If the cost of the maintenance included in the vendor's quote cannot be reasonably estimated, and the majority of the cost appears to meet capitalization criteria, capitalize the entire purchase.

C. Examples of capitalized costs for contractor-developed software projects:

1. Amount paid to the contractor(s) for design, program, testing, and related costs.
2. Cost of space or supplies, if contractors are housed in on-site.
3. Hardware to operate the new software if separate and apart from existing infrastructure of the VA.
4. Direct agency costs incurred to implement the software, including travel, project management, and management oversight.

### Appendix C: Recording IUS Costs

- A. All contractor Planning phase costs of IUS will be recorded to *Systems Analysis and Programming Support for Internally Developed Software* (BOC 2515). Salaries and other costs will be posted in VA's accounting system of record 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 Development phase, all costs identified as a contractual service for internally developed software will be entered as an obligation using BOC 3124. Costs associated with COTS software should be entered as an obligation using BOC 3132. FSC will ensure the project number is appropriately recorded within the obligation document to allow costs to be automatically tracked and assigned to the related IUS WIP project as payments are issued.
- C. Salary and benefits costs will be identified by a project number and transferred into USSGL account 1832 using the proper transaction in the accounting system of record.
- D. FSC will allocate indirect costs to each qualified IUS project. These costs will be identified by a project number and transferred into USSGL account 1832 using the proper transaction in the accounting system of record. In the event indirect costs are determined to be immaterial when compared with the overall costs of a software project, FSC will expense the costs in the period incurred. FSC and OIT will ensure decisions regarding the materiality of indirect costs will be justified and properly documented.
- E. The costs of an IUS project recorded in USSGL account 1832 which do not meet the capitalization criteria 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 VA will use BOC 2515. VA will use BOC 3134, *Internal Use Software – Non-Capitalized*, for IUS which does not meet the Department's capitalization criteria.
- G. For costs incurred after the decision is made to authorize and commit to the project VA will use BOC 3124 for internally developed software, or BOC 3132 for COTS software. On-going maintenance and operational costs for a system are recorded using BOCs 2507 through 2513 (See [Volume XIII, Chapter 2 – Budget Object Codes](#) and its associated appendices for definitions).

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>USSGL Account Description</u>	<u>Credit</u>	<u>USSGL Account Description</u>
7210	Loss on Disposal/Write-off PP&E	1832	Internal Use Software in Development

I. VA will use the following transaction to recognize the expense for software costs incurred in the current fiscal years that were not capitalized:

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

J. When VA's management commits to an IUS project 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 BOC 3124 for internally developed software, or BOC 3132 for COTS software regardless of whether the project is expected to meet the capitalization criteria.
2. The IUS project's unique identifier should be recorded on the obligation. In this way, obligations and costs will be accumulated and can be analyzed to determine their proper accounting treatment. FSC will return obligations where the unique identifier is not appropriately recorded within the obligation document.
3. If it is subsequently determined that the cumulative obligations entered into BOC 3124 or 3132 for an IUS project will not meet the capitalization criteria, proceed as follows:
  - a. For costs incurred in the current year, the project's cumulative costs in BOC 3124 or 3132 will be transferred to BOC 3134 using a journal voucher. Any costs entered into USSGL Account 1832 will be reversed and expensed to USSGL Account 6100.
  - b. For costs incurred in prior years, the FSC will recognize appropriate losses by processing a single journal voucher in the accounting system of record to remove all associated costs from USSGL 1832.

Appendix D: Previous Policy Revisions

Section	Revision	Office	Reason for Change	Effective Date
1303 Definitions	Added definitions for Veteran-focused Integration Process (VIP) and its four specific phases (Initiation, Project, Product, and Close-out), development phase, operations phase, planning phase, internal use software (IUS), and obsolete software  Updated definition of internally developed software	OIT (005F)	Improve clarity	March 2019
1304 Roles and Responsibilities	IUS Product and Program Managers changed to IUS Project and Program Managers	OIT (005F)	Align with OIT procedural guidance	March 2019
1305 Policies	Added data migration to the list of non-capitalized costs  Modified useful life and added table providing criteria for assignment of useful life  Clarified guidance on management of obsolete software  Added requirement for annual inventory to responsibilities for IUS Project and Program Managers	OIT (005F)	Improve clarity and align with OIT procedural guidance	March 2019



Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and completed 5-year review	OFP (047G)	Reorganized chapter layout	January 2018
Various	Changed Volume and Chapter from Volume III, Chapter 10 to Volume V, Chapter 13	OFP (047G)	To categorize the chapter with other Asset chapters	January 2018
1303 Definitions	Added, removed and modified definitions previously included	OFP (047G)	To add clarity	January 2018
1304 Roles and Responsibilities	Added responsibility for OIT to maintain an IUS standard operating procedure (SOP) and working group	OFP (047G)	To address Notice of Findings Report (NFR) VA 15-1, Financial Reporting	January 2018
1305 Policies	Added language for use of reasonable estimates and revaluing previously reported assets as authorized by FASAB SFFAS No. 50	OFP (047G)	FASAB updated guidance	January 2018
1305 Policies	Updated dollar threshold for capitalization of IUS to \$1 million and 4 years or more (NTE 20 years)	OFP (047G)	Update to VA's threshold	January 2018
1305 Policies	Emphasized tracking and recognition of full cost  Defined VA's Development phase	OFP (047G)	To address NFR VA 15-1 and 16-4, Financial Reporting	January 2018
1305 Policies	Clarified accounting for cloud computing, services made available by a non-VA provider	OFP (047G)	Updates to reflect change in technology	January 2018

Section	Revision	Office	Reason for Change	Effective Date
1306 Authorities and References	Added FASAB SFFAS No. 50, TR 16 and TR17  Removed FASAB SFFAS No. 35 and TR 5	OFP (047G)	FASAB updated guidance	January 2018
1306 Authorities and References	Added OIT EP MO VIP Business Office SharePoint	OFP (047G)	Reference to VIP Guide	January 2018
1308 Questions	Added POC for NCA and FSC	OFP (047G)	Ensure appropriate contacts are listed	January 2018
Appendix A	Added Appendix A	OFP (047G)	Provides additional guidance on VIP	January 2018