April 26, 2005

MEMORANDUM TO:   Those on the Attached List

FROM:                   Jesse L. Funches     */RA/*
                        Chief Financial Officer

SUBJECT:               ADHERENCE TO NRC POLICIES AND PROCEDURES -
                        ACCOUNTING FOR INTERNAL USE SOFTWARE

I am requesting your support and assistance to ensure staff adheres to agency policy concerning IT development projects and time and labor reporting.  The Federal Accounting Standards Advisory Board, which establishes generally accepted accounting principles for the Federal Government, issued the Statement of Federal Financial Accounting Standard Number 10, *Accounting for Internal Use Software*, that became effective October 1, 2000.  This accounting standard requires Federal agencies to identify the full costs (including direct labor, overhead, and contractor costs) associated with the development of internal use software, whether it is acquired as commercial off-the-shelf, developed by a contractor, or developed internally.  The purpose of Standard 10 is to recognize IT systems, used in the operation of Federal programs, as agency assets and to provide a basis for valuing these assets for financial reporting purposes.  My September 2000 memorandum to office directors and regional administrators entitled, "Revised Policy for Accounting for Internal Use Software" established the agency policies and procedures for implementing Standard 10.

Since implementation of Standard 10, a number of systems, which did not comply with the agency's IT development planning, investment control and reporting requirements, have been developed and placed into operation.  The development of these systems did not comply with agency policies and procedures contained in my September 18, 2000, memorandum and HRMS time and labor reporting requirements.  During FY 2004, four such systems were identified.

A revised Management Directive 4.1, *Accounting Policies and Practices*, which delineates the responsibilities of office directors and regional administrators, will be issued soon.  In addition, I have revised and updated the Policy for Accounting for Internal Use Software.  The new policy is attached and replaces my memorandum of September 2000.  This guidance contains information on how to identify, record, and report the resources used on internal software development projects which must be followed in order to maintain accurate financial information for the agency's assets and expenditures.  A yellow announcement will also be issued to all NRC employees in order to emphasize the policy at all staff levels.  Failure to follow agency policy and procedures results in expenditure of agency resources without proper authorization and may result in a negative audit opinion for the agency as a whole.

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                301-415-6054
                BKG@nrc.gov

In addition, the agency is required by the Clinger-Cohen Act to maintain an inventory of Information Technology systems.  To comply with this requirement, the Office of the Chief Financial Officer and the Office of the Information Services issue a joint memorandum twice a year requesting offices to submit an updated inventory of all their software and provide information on upcoming software development activities (Refer to the memorandums dated November 25, 2003, and September 17, 2004, *Update of Capitalized Software and Systems Inventory*).  Some systems were not identified for inclusion in the agency capitalized software and systems inventory records.

I would appreciate your assistance to ensure that all staff in your office understand the attached policies and procedures before beginning a software development project.  Please contact us if you have any questions or need clarification on these policies and procedures.  In order to update our records, please inform us of any software development project or any software activity that has not been previously reported.  For your convenience, Attachment 2 reflects the current systems reported to us.

Thank you for your support and assistance on this important agency matter.

Attachment:  As stated

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Attachment:  As stated

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| NAME | MSGivvines* | | PJRabideau | | JLFunches | |
| DATE | 04/19/05 | | 04/25/05 | | 04/26/05 | |

MEMORANDUM TO THOSE ON THE ATTACHED LIST DATED:  April 26, 2005

SUBJECT:    ADHERENCE TO NRC POLICIES AND PROCEDURES - ACCOUNTING FOR
                     INTERNAL USE SOFTWARE

|  | Mail Stop | |
|---|---|---|
| John T. Larkins, Executive Director, Advisory Committee on Reactor Safeguards/Advisory Committee on Nuclear Waste | T-2 | E26 |
| G. Paul Bollwerk, III, Chief Administrative Judge, Atomic Safety and Licensing Board Panel | T-3 | F23 |
| Karen D. Cyr, General Counsel | O-15 | D21 |
| John F. Cordes, Jr., Director, Office of Commission Appellate Adjudication | O-16 | C1 |
| Hubert T. Bell, Inspector General | T-5 | D28 |
| Janice Dunn Lee, Director, Office of International Programs | O-4 | E21 |
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| William N. Outlaw, Acting Director, Office of Congressional Affairs | O-16 | C1 |
| Eliot B. Brenner, Director, Office of Public Affairs | O-2 | A13 |
| Annette Vietti-Cook, Secretary of the Commission | O-16 | C1 |
| Luis A. Reyes, Executive Director for Operations | O-16 | E15 |
| Jacqueline E. Silber, Deputy Executive Director for Information Services and Administration, OEDO | O-16 | E15 |
| William F. Kane, Deputy Executive Director for Homeland Protection and Preparedness, OEDO | O-16 | E15 |
| Martin J. Virgilio, Deputy Executive Director for Materials, Research and State Programs, OEDO | O-16 | E15 |
| Ellis W. Merschoff, Deputy Executive Director for Reactor Programs, OEDO | O-16 | E15 |
| William M. Dean, Assistant for Operations, OEDO | O-16 | E15 |
| Timothy F. Hagan, Director, Office of Administration | T-7 | D26 |
| Frank J. Congel, Director, Office of Enforcement | O-14 | E1 |
| Guy P. Caputo, Director, Office of Investigations | O-3 | F1 |
| Edward T. Baker, Director, Office of Information Services | T-6 | F15 |
| Paul E. Bird, Director, Office of Human Resources | T-3 | A2 |
| Corenthis B. Kelley, Director, Office of Small Business and Civil Rights | T-2 | F18 |
| Jack R. Strosnider, Director, Office of Nuclear Material Safety and Safeguards | T-8 | A23 |
| James E. Dyer, Director, Office of Nuclear Reactor Regulation | O-5 | E7 |
| Carl J. Paperiello, Director, Office of Nuclear Regulatory Research | T-10 | F12 |
| Paul H. Lohaus, Director, Office of State and Tribal Programs | O-3 | C10 |
| Roy P. Zimmerman, Director, Office of Nuclear Security and Incident Response | T-4 | D22a |
| Samuel J. Collins, Regional Administrator, Region I | RGN-I | |
| William D. Travers, Regional Administrator, Region II | RGN-II | |
| James L. Caldwell, Regional Administrator, Region III | RGN-III | |
| Bruce S. Mallett, Regional Administrator, Region IV | RGN-IV | |

**POLICY FOR ACCOUNTING FOR INTERNAL USE SOFTWARE**

This policy supercedes and updates the policy and information contained in Yellow Announcement No. 62, dated September 22, 2000, *Time and Labor Reporting for Software Development Projects*, and the Office of the Chief Financial Officer (OCFO) memorandum, dated September 18, 2000, *Revised Policy for Accounting for Internal Use Software*.

**AUTHORITY.**  The Federal Accounting Standards Advisory Board (FASAB), which sets accounting requirements for the Federal government, issued the Statement of Federal Financial Accounting Standard (SFFAS) Number 10, *Accounting for Internal Use Software*, in June 1998 with an effective date of October 1, 2000.  The standard requires Federal agencies to determine the full cost of internal use software development projects and to capitalize those costs when they meet capitalization requirements.  The cost of internal use software development must be capitalized when the software meets the NRC capitalization criteria of a useful life of at least two years and a cost of $50,000 or more.  More internal use software development projects are expected to meet the capitalization threshold when full cost is allocated (including indirect).  Thus, it is important for the successful compliance with this Federal requirement that all offices properly monitor, record, and report the costs incurred on internally developed software projects.

**ORGANIZATIONAL RESPONSIBILITIES.**  The NRC organizational responsibilities for accounting for internal use software are described in Management Directive 4.1, *Accounting Policy and Practices*.  Generally, office directors and regional administrators must ensure that IT project managers adhere to agency policies for software development projects and ensure that all contract costs and staff hours associated with developing software are separately and distinctly recorded in the agency's job code and time and labor coding structure.  Separate and accurate coding of contractor costs and employee time should be done even though initial planning estimates may project the total cost to be less than $50,000.  OCFO staff will make the final determination, based upon the cost information, on whether a system should be capitalized.

Project managers ensure the necessary job code and time and labor activity codes are established to track the contractor costs and staff time for each software development project. They are responsible for informing staff of the time and labor activity codes for reporting direct time.  Project managers review and sign certification forms sent out by the Division of Financial Management for project managers to certify the accuracy of the hours reported by staff as worked on the development phase of the project.  Project managers are also responsible for notifying the Division of Financial Management when the project has completed the development phase and has moved to the post-implementation/operational phase.

**DEFINITION OF INTERNAL USE SOFTWARE.**  Internal use software is defined as software used to meet a Federal agency's internal or operational needs.  It includes mission-related, financial, and administrative software (including that used for project management).  Internal use software is specifically identifiable, is not intended for sale in the ordinary course of

operations, and has been acquired or constructed with the intention of being used by the agency.  Internal use software can be:

- Purchased off-the-shelf from a vendor and is ready for use with little or no changes.

- Internally developed software that NRC employees are actively developing, including new software and existing or purchased software that is being modified with or without a contractor's assistance.

- Contractor developed software that the NRC is paying a contractor to design, program, install, and implement (both new software and modification of existing or purchased software).

**PHASES OF SOFTWARE DEVELOPMENT.**  SFFAS 10 describes three phases in the process to acquire internal use software.  The activities that are likely to be performed in each phase are listed below (activities may not follow in the order shown).  The listed activities could be performed either by NRC staff or by contractors.  Only the costs associated with the development phase would be capitalized.

- **Preliminary design phase** activities include:

  - Make strategic decisions to allocate resources between alternative projects at a given time, e.g., should programmers develop new software or direct their efforts toward correcting problems in existing software?

  - Determine performance requirements, i.e., what it is it you need the software to do?

  - Invite vendors to perform demonstrations of how their software will meet needs.

  - Explore alternative means of achieving specified performance requirements, e.g., should the software be made or purchased?  Should the software operate on a mainframe or client server system?

  - Determine that the technology needed to achieve performance requirements exists.

  - Select a vendor if the decision is made to obtain commercial off-the self (COTS) software.

  - Select a consultant to assist in the software's development or installation.

- **Development phase** activities include:

  - Manage the project and associated resources.

  - Determine the reasons for any deviations from the project plan and take corrective action.

  - Design the software and interfaces.

- Code the software.

- Install on hardware.

- Test the deliverables to determine if they meet the specifications, including parallel testing.

**Post-implementation/operational phase** activities include:

- Operate the software, undertake preventive maintenance, and provide ongoing training for users.

- Convert data from the old to the new system.

- Undertake post-implementation review comparing asset usage with the original plan.

**COMBINED HARDWARE AND SOFTWARE COSTS.** Computer software that is integrated into and necessary to operate general property, plant and equipment (PP&E), rather than perform an application, is not capitalized separately, e.g., reactor simulator software. This software is considered part of the PP&E of which it is an integral part and capitalized accordingly. The aggregate cost of the hardware and software is used to determine whether to capitalize or expense the cost.

**COSTS THAT ARE INCLUDED IN CAPITALIZED SOFTWARE COSTS.** If a software development project meets the capitalization criteria of $50,000 in cost, accumulated during the development phase, and a useful life of two years or more, it should be capitalized to include the following costs:

- For COTS software, the amounts paid to the vendor to purchase the software.

- For contractor-developed software, the amounts paid to a contractor to design, program, install and implement the software.

- Material internal costs incurred to implement the COTS or contractor-developed software and otherwise make it ready for use.

- NRC staff salary and benefit (S&B) costs of direct time spent during the development phase dedicated to managing the specific project, designing software configurations and interfaces, coding, installing on hardware, and testing/debugging. Direct NRC S&B costs would include NRC staff who are programmers, systems analysts, project managers and providing direct administrative support to the project. Incidental Participation: Staff participation in a software development effort that is limited to attendance at periodic meetings, occasional participation such as providing subject matter expertise, or other clearly nonmaterial levels of effort (e.g., individuals posting their time worked to the old and new systems during the parallel testing phase) will be considered "incidental participation" and not capitalized as direct software development costs (time is not reportable as direct).

- Indirect costs related to the software development project (determined by the annual NRC cost allocation plan).

**COSTS THAT ARE EXCLUDED FROM CAPITALIZED SOFTWARE COSTS.** Costs that are excluded when determining if a software development project meets the capitalization criteria of $50,000:

- As discussed in the section, Phases of Software Development, costs accumulated during the preliminary design and post-implementation/operational phases are not capitalized but expense. Examples of activities associated with the preliminary design phase are: determining system requirements, determining method of acquisition (i.e., off the shelf or contractor programmed), vendor demonstrations of software, selecting a vendor, and selecting a consultant. Examples of activities associated with the post-implementation/operational phases are: maintenance costs, software operating costs, ongoing training of users, and post-implementation analysis of system operation compared to plan.

- Data conversion costs incurred for internally developed, contractor-developed, or COTS software and the cost to develop or obtain software that allows for access or conversion of existing data to the new software are expensed and not capitalized. Such costs may include the purging or cleansing of existing data, reconciliation or balancing of data, and the creation of new/additional data.

- Costs incurred after final acceptance testing has been successfully completed are expensed and not capitalized.

- Minor enhancements or the purchase of enhanced versions of software for a nominal charge is expensed and not capitalized.

**SOFTWARE THAT IS NOT CAPITALIZED.** Costs associated with research and development (R&D) software such as analytical/scientific code work is not capitalized (there may be other examples of agency software that falls under the R&D category). Because of the nature of R&D software, it is not capitalized under the standard. Management Directive 4.1 describes analytical and scientific codes as, " . . . analytical tools and models used to research safety issues and are constantly revised based on the resultant increased understanding of the complex interactions of some aspect of nuclear regulatory activities." In addition, software costing less than $50,000 and/or a useful life of less than two years.

**ENHANCEMENTS.** The acquisition costs of enhancements are capitalized when it is likely that they will result in significant additional capabilities, e.g., adding a capability to existing software to enable ad hoc queries. Minor enhancements or the purchase of enhanced versions of software for a nominal charge is not capitalized but expensed. Costs incurred solely to repair a design flaw or to perform minor upgrades that may extend the useful life without adding capabilities are expensed.

**GENERAL PROCEDURES FOR IMPLEMENTING SFFAS NO. 10**

**JOB CODES USED FOR TRACKING COSTS.** One job code should be established for each specific software development effort (project). Office staff will identify the job codes associated with specific software development projects when job codes are submitted to the Division of Financial Management (DFM) for set up in the core accounting system (and when renewing job codes at the beginning of each fiscal year). "Umbrella projects," where several systems are currently being developed under one job code are to be split up into one job code for each component system. The project manager should coordinate the set up of job codes with the financial staff.

**A time and labor activity code must be set up for all software development projects even if it is initially anticipated that the project cost will not exceed $50,000.** All employee time spent on software development projects is to be recorded under the appropriate time and labor activity code in order to enable an OCFO determination on whether or not to capitalize when salary, benefit, contractor, and indirect costs are calculated for the development portion of the project.

**DIRECT CONTRACTOR COSTS.** Contracts, DOE work orders, interagency agreements (including CISSCO), and other contractual vehicles used to procure the design, programming, installation or implementation of new or existing software, should require contractors to identify the cost for each software project under at least two categories when invoicing the NRC: (1) non-development (preliminary design, operations, post-implementation, maintenance and all other non-development activity), and (2) development.

Contractors should indicate the amounts billed on invoices by the software project and phase of development. Existing contracts should be reviewed to assure that necessary distinctions are being made, if not, the contract should be modified.

**DIRECT NRC STAFF TIME.** In order to collect direct NRC staff time, the project manager working on a new software project must contact the Division of Financial Services in order to set up a time & labor activity code for the NRC staff working on the development phase of the project. Each employee working on the software development project is responsible for recording their own time under this activity code. This ensures that all labor associated with the project will be tracked.

**INDIRECT COSTS FOR IT PROJECTS.** Indirect costs are not reported to the project job code but subsequently allocated to each project based on the allocation methodology of the Cost Accounting System. The indirect cost allocations are done by the OCFO. The cost allocation methodology is developed by the OCFO as the agency method for allocating all agency indirect costs. Indirect costs include management, nondedicated administrative staff, incidental participation, and other costs identified as indirect in the annual cost allocation methodology. Indirect costs will be allocated to the software development projects as part of the quarterly cost allocation methodology based on total hours.

# CAPITALIZED SYSTEMS
**As of Mach 31, 2005**

**ADM**
1. Integrated Personnel Security System (IPSS)
2. PASS Supply Module

**ASLBP**
1. Digital Data Management System (DDMS)
2. Liscensing Support Network (LSN)

**HR**
1. Legacy Support Interface

**NMSS**
1. EARTHVISION
2. General License Tracking System (GLTS)
3. IRAM Fuel Cycle
4. National Sealed Source and Device Registry System (NSSD Registry)

**NRR**
1. Allegations Management System (AMS)
2. GEN & SIS
3. Human Factor Information System
4. IRAM
5. Licencing Computer Code Catalog (LCC)
6. Operator Licensing Tracking System (OLTS)
7. Part 21 Website
8. Performance Indicator (PI)
9. Performance Measures (PM)
10. Reactor Program System (PRS)
11. Time Resource Inventory Management (TRIM)

**NSIR**
1. Operations Center Information Management System (OCIMS)

**OCFO**
1. A/R Fees System
2. Metify Cost Accounting
3. Secy Tracking and Reports Systems (STARS)
4. STARFIRE - People Soft

**OI**
1. Investigation Management Information System

**OIG**
1. Management Information System (MIS)

**OIS**
1. Agency Wide Document Access & Management System (ADAMS)
2. Cissco TAC System
3. Commission Decision Tracking System (CDTS)
4. Enforcement Actions Tracking System (EATS)
5. Excalibure Retrievalware / Convera
6. Public Meeting Notice System (PMNS)
7. Regulatory Information Distribution System (RIDS)
8. Research Information Management System (RIMS)
9. SECY/PDR Retrieval

**RES**
1. Enhanced Coding Interface (ECI)
2. Research Information Management System II (RIMS II)
3. Sequence Coding & Search System (SCSS)