

June 15, 2009

MEMORANDUM TO: Kathryn O. Green, Director
Office of Administration

FROM: Cynthia A. Rheume, Controller/**RA**/
Director of the Controller
Office of the Chief Financial Officer

SUBJECT: REVISED U.S. NUCLEAR REGULATORY POLICY -
ACCOUNTING FOR LEASEHOLD IMPROVEMENTS

I am requesting your support and assistance to ensure your staff understands and complies with our revised policy concerning the accounting of costs for leasehold improvement projects. A leasehold improvement is defined as costs incurred which either extend the useful life or improve its capacity for a leased facility. According to accounting principles generally accepted in the United States, all costs, including contract staff and in-house labor hours, associated with the construction of an asset with a useful life of more than one year must be recorded and expensed over its useful life.

I have enclosed the revised Policy for Accounting for Leasehold Improvements. This guidance contains the procedures to record in-house staff labor hours spent on the construction of leasehold improvement projects. It is important for the successful compliance with this requirement that your office properly monitors, records, and reports the in-house labor hours incurred for leasehold improvement projects. In addition, I am also asking that you remind your staff to respond timely to our request for information on leasehold improvements placed in service and removed from service.

Please ensure that all staff in your office involved with the construction of leasehold improvements understand the attached policies and procedures before beginning a leasehold improvement project. Failure to follow this policy may result in a negative financial statement audit finding for the agency. Please contact us if you have any questions or need clarification on these policies and procedures.

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

Enclosure:
As stated

CONTACT: Michele Kaplan, OCFO/DOC/FM/FSRT
301-415-5256

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POLICY FOR ACCOUNTING FOR LEASEHOLD IMPROVEMENTS

DEFINITION OF LEASEHOLD IMPROVEMENTS: Leasehold improvements are improvements made to any real property (land, buildings, structures, and facilities) leased by the U.S. Nuclear Regulatory Commission (NRC). The leasehold improvement must either extend the useful life of the real property or enlarge or improve its capacity.

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 6, *Accounting for Property, Plant, and Equipment*, (PP&E) in June 1996. The standard states: "Costs which either extend the useful life of an existing general PP&E, or enlarge or improve its capacity shall be capitalized and depreciated/amortized over the remaining useful life of the associated general PP&E." The costs of leasehold improvements must be capitalized when the leasehold improvement meets the NRC capitalization criteria of a useful life of at least two years and a cost of \$50,000 or more. It is important for the successful compliance with this Federal requirement that all offices properly monitor, record, and report the costs incurred on leasehold improvement projects.

NRC STAFF TIME: The Project Manager and staff associated with the leasehold improvement project shall code time spent on the leasehold improvement project to the appropriate time and labor activity code (TAC). The Project Manager and staff hours coded to the TAC should include direct costs of inspection, supervision, and administration of construction contracts and construction work.

In order to collect NRC staff time, the Project Manager working on a new leasehold improvement project must contact the Office of the Chief Financial Officer (OCFO), Division of the Controller (DOC), Financial Services (FS) Chief of the Time, Labor and Payroll Services Team, in order to set up a time and labor activity code (TAC) for the NRC staff working on the project. Each employee working on the leasehold improvement project is responsible for recording their own time under this activity code. This ensures that all labor hours associated with the project will be tracked. Once the TAC has been established, the Project Manager should contact the DOC, Financial Management (FM) Chief of the Financial Statement and Reconciliation Team, to ensure that the labor hours are recorded correctly as leasehold improvement costs.

JOB CODES USED FOR TRACKING COSTS: One job code should be established for each specific leasehold improvement project. Office staff will identify the job codes associated with specific leasehold improvement projects when job codes are submitted to the DOC/FM for set up in the core accounting system (and when renewing job codes at the beginning of each fiscal year). 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 leasehold improvement projects even if it is initially anticipated that the project cost will not exceed \$50,000. All Project Manager and staff time spent on leasehold improvement 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 and benefit costs are calculated for the project.

ORGANIZATIONAL RESPONSIBILITIES: Project Managers ensure the necessary job code and time and labor activity codes are established to track the staff time for each leasehold improvement project. They are responsible for informing staff of the time and labor activity

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codes for reporting direct time. **Additionally, they are responsible for informing the Financial Statement and Reconciliation Team of the DOC/OCFO about these codes.**

Project Managers review and sign quarterly certification forms sent out by the DOC/FM for Project Managers to certify the accuracy of the hours reported by staff as worked on the leasehold improvement project. Project Managers are also responsible for notifying the DOC/FM when the project has been completed.

Generally, office directors and regional administrators must ensure that Leasehold Improvement Project Managers adhere to agency policies for leasehold improvement projects and ensure that all staff hours associated with the leasehold improvement projects are separately and distinctly recorded in the agency's job code and time and labor coding structure. Separate and accurate coding of 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 project should be capitalized.