

July 22, 2002

TO: CFO Council

FROM: Edward R. McPherson /S/
Chief Financial Officer

SUBJECT: Implementation of *Statement of Federal Financial Accounting Standards (SFFAS) Number 10*, "Accounting for Internal Use Software."

This memorandum transmits the Department's policy on the implementation of SFFAS No.10 and provides guidance for the reconciliation of fiscal year (FY) 2001 transactions.

The Office of the Chief Financial Officer (OCFO) reviewed the Internal Use Software (IUS) assets contained in the PROP Feeder System (PROP), as of May 18, 2002. OCFO has determined that for FY 2001, the Net Book Value (NBV) of improperly capitalized IUS was \$2.4 million. The yearly amortization of this IUS will be \$521,460 per year, until FY2006, when it will be \$312,987. The NBV of improperly capitalized IUS in PROP for FY 2002 is \$670,000. A review to resolve the IUS issues within Forest Service (which is completing its own review with their auditors KPMG) and the Working Capital Fund (WCF) continues.

As a result of our review, we are directing each agency **not** to correct the IUS assets that were improperly capitalized in PROP during FY 2001. Therefore, if IUS costs were capitalized as of September 30, 2001, even though they did not meet the \$100,000 or greater threshold, leave them as capitalized.

For the reporting period that began after September 30, 2001, the provisions of SFFAS No.10 are fully effective. Agencies must review their IUS transactions for FY 2002, to ensure compliance with the Department's threshold of \$100,000 or greater and a useful life of two years or more. As part of the clean up effort for real and personal property, each agency **must correct** its IUS transactions that were improperly capitalized or expensed since October 1, 2001, by September 1, 2002.

The June 18, 2002, IUS meeting provided guidance on the issues of bulk purchases, software licenses, WCF assets, enhancements, capital leases and full costing. We will continue to provide guidance as issues arise in relation to the implementation of SFFAS No.10.

Questions regarding this memorandum may be addressed to Paul Hoffmann at (202) 720-1888 or Donna Bateman, Director, Credit, Travel, and Accounting Policy Division at (202) 720-8992.