August 16, 2021

MEMORANDUM TO: Those on the Attached List

FROM: Kimberly A. Darling, Comptroller
Division of the Comptroller
Office of the Chief Financial Officer

Kimberly A Darling Signed by Darling, Kim on 08/16/21

SUBJECT: ADHERENCE TO U.S. NUCLEAR REGULATORY COMMISSION POLICIES AND PROCEDURES - ACCOUNTING FOR INTERNAL USE SOFTWARE

I am requesting your support and assistance to ensure staff continues to adhere to agency policy concerning Information Technology (IT) development projects and time and labor reporting. The Federal Accounting Standards Advisory Board establishes generally accepted accounting principles for the Federal Government and issued the Statement of Federal Financial Accounting Standard Number 10, Accounting for Internal Use Software. 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. The Office of the Chief Financial Officer (OCFO) August 29, 2012, memorandum to office directors and regional administrators entitled, "Adherence to NRC Policies and Procedures-Accounting for Internal Use Software" (ML12243A467) reminded the U.S. Nuclear Regulatory Commission (NRC) staff of the agency policies and procedures for adhering to the requirements in Standard 10. This memorandum mainly updates the previously issued memorandum.

I have attached the current Policy for Accounting for Internal Use Software (Enclosure 1). 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 communications meeting will also be scheduled to address any questions your staff may have. Failure to follow agency policy and procedures results in expenditure of agency resources without proper authorization and may result in a negative financial statement audit finding for the Agency as a whole. In addition, the Agency is required by the Clinger-Cohen Act to maintain an inventory of IT

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systems. To comply with this requirement, the Office of the Chief Information Officer will continue to issue a data call once a year requesting offices to submit an updated inventory of all their software and provide information on upcoming software development activities.
I would appreciate your assistance to ensure that all staff in your office understands the attached policies and procedures before beginning a software development project. Please contact Susan Jones (Susan.Jones@nrc.gov), if you have any questions or need clarification on these policies and procedures. For your convenience, Enclosures 2 and 3 reflect the current systems that have been capitalized and the systems currently being tracked in development, respectively.

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

Enclosures:
As stated

<u>MEMORANDUM TO THOSE ON THE ATTACHED LIST DATED</u>: August 13, 2021
SUBJECT: ADHERENCE TO U.S. NUCLEAR REGULATORY COMMISSION POLICIES AND
PROCEDURES - ACCOUNTING FOR INTERNAL USE SOFTWARE

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John Lubinski, Director, Office of Nuclear Material Safety and Safeguards	RidsNmssOd Resource
Andrea Veil, Director, Office of Nuclear Reactor Regulation	RidsNrrOd Resource **(I)** RidsNrrMailCenter Resource **(A)**
Raymond V. Furstenau, Director, Office of Nuclear Regulatory Research	RidsResOd Resource **(I)** RidsResPmdaMail Resource **(A)**
Vonna L. Ordaz, Director, Office of Small Business and Civil Rights	RidsSbcrMailCenter Resource
Mirela Gavrilas, Director, Office of Nuclear Security and Incident Response	RidsNsirOd Resource **(I)** RidsNsirMailCenter Resource **(A)**
David C. Lew, Regional Administrator, Region I	RidsRgn1MailCenter Resource
Laura A. Dudes, Regional Administrator Region II	RidsRgn2MailCenter Resource
John B. Giessner, Regional Administrator, Region III	RidsRgn3MailCenter Resource
Scott A. Morris, Regional Administrator, Region IV	RidsRgn4MailCenter Resource

POLICY FOR ACCOUNTING FOR INTERNAL USE SOFTWARE

This policy supersedes and updates the policy and information contained in the Office of the Chief Financial Officer (OCFO) memorandum, dated August 29, 2012, Adherence to U.S. Nuclear Regulatory Commission Policies and Procedures - 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. 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 Nuclear Regulatory Commission (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 costs). 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 Information Technology (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. The 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 code for reporting direct time. Additionally, project managers should inform the Financial Reporting Branch within the Division of the Comptroller, OCFO of the following:

- Start date for when the development or major enhancement work began

- Contract number(s) and time and labor activity code associated with development

- Implementation date once the project has completed the development phase and moved to the post-implementation/operational phase

The final costs recorded for the development phase will be used to value the software as an asset within the agency's financial statements once the system is implemented. Enclosure 2 lists the systems currently capitalized within the financial statements by office. Enclosure 3 lists the systems being tracked that are currently in the development phase. Please inform the Financial Reporting Branch of any software development project or any software activity that has not been previously reported.

POLICY FOR ACCOUNTING FOR INTERNAL USE SOFTWARE

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 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:

POLICY FOR ACCOUNTING FOR INTERNAL USE SOFTWARE

- Manage the project and associated resources.

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

- Design the software, interfaces, and configuration.

- 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

Capitalization of software would begin after the NRC completed all planning, designing, coding, and testing activities that are necessary to establish that the software can meet the design specifications. The software development project needs to meet the capitalization criteria of $50,000 in cost, accumulated during the development phase, and has a useful life of two years or more. Capitalized software costs include the following:

- 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.

POLICY FOR ACCOUNTING FOR INTERNAL USE SOFTWARE

- 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 NRC cost allocation models).

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 expensed. 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.
- 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

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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 is not capitalized.

POLICY FOR ACCOUNTING FOR INTERNAL USE SOFTWARE

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 NUMBER 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 DOC 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 setup 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 to capitalize when salary, benefit, contractor, and indirect costs are calculated for the development portion of the project.

BUDGET OBJECT CLASSIFICATION CODES (BOCs)

BOCs are a set of codes that correspond to purchases made by the government. Proper usage of BOCs is essential for the NRC to have accurate external reporting. BOCs 3140, 3141 and 3145 are commonly used for IT projects that are capitalized, while BOCs 3131 and 3142 are often used for non-capitalized IT projects. To determine the correct BOC staff should refer to the latest BOC Guide which is published annually by the OCFO's Financial Reporting Branch

DIRECT CONTRACTOR COSTS

Contracts, Department of Energy (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

POLICY FOR ACCOUNTING FOR INTERNAL USE SOFTWARE

In order to collect direct NRC staff time, the project manager working on a new software project must set up a time & labor activity code (TAC) 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. Once the TAC has been established, the project manager should contact the DOC Financial Reporting Branch to ensure that the labor hours are recorded correctly as software development costs.

INDIRECT COSTS FOR IT PROJECTS

Indirect costs are not reported to the project job code but subsequently allocated to each project. 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 reported to the established development TACs.

CAPITALIZED SYSTEMS
As of February 2021

ADM
1.   Personnel Security Adjudication Tracking System (PSATS)
2.   Space Property Management System (SPMS) Upgrade

NMSS
1.   National Sealed Source and Device Registry System (NSSDRS)
2.   General License Tracking System (GLTS)
3.   National Source Tracking System (NSTS)
4.   National Source Tracking System (NSTSv2) Enhancement
5.   Web Based Licensing (WBL)
6.   License Verification System (LVS)
7.   TAPIS/STIMS
8.   Portfolio Enrollment Module (PEM)

OCHCO
1.   NRC Knowledge Center (NKC)
2.   Enterprise Staffing Plan Application (ESPA)

NRR
1.   Human Factor Information System (HFIS)
2.   Reactor Program System (RPS)
3.   Time Resource Inventory Management (TRIM)
4.   FIREFLY
5.   Operator Licensing Tracking System (OLTS)
6.   Enterprise Project Management (EPM)
7.   Verification o Inspections, Tests, Analyses, and Acceptance Criteria (ITAAC) Closure Evaluation and Status (VOICES)

NSIR
1.   Operations Center Information Management System (OCIMS)
2.   Emergency Response Data System (ERDS) Modernization Phase I & II- Emergency Data System

OCFO
1.   Budget Formulation System (BFS)
2.   Task Assignment Control System (TACS-LSR)
3.   Human Resources Management System (HRMS)
4.   Master Data Management (MDM) System
5.   Time and Labor (T&L) Modernization

OE
1.   Allegation Management System (AMS)
2.   Enforcement Action Tracking Sub-System (EATS)

CAPITALIZED SYSTEMS
As of February 2021

<u>**OIG**</u>

1.   OIG Management Information System (OIGMIS)

<u>**OCIO**</u>

    1.   Agency Wide Document Access & Management System (ADAMS)
    2.   Public Meeting Notice System (PMNS)
    3.   Electronic Document and Action Tracking System (EDATS)
    4.   Single Point of Contact Monitoring (SPOC)
    5.   Electronic Information Exchange (EIE)
    6.   Xacta Information Assurance (IA) Manager
    7.   Incident Response Data Base (IRDB)
    8.   Incident Response Data Base (IRDB) Enhancement
    9.   Enterprise Project Management (EPM) System

<u>**OI**</u>
1.   Office of Investigations Management Information System (OIMIS)

<u>**ACRS**</u>
1.   Web-Advisory Committee Tracking System (WebACTS)

NRR
1.   Reactor Program System (RPS) Replacement

SUBJECT: ADHERENCE TO U.S. NUCLEAR REGULATORY COMMISSION POLICIES AND PROCEDURES - ACCOUNTING FOR INTERNAL USE SOFTWARE, DATED: August 13, 2021

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