

# ADMINISTRATIVE PROCEDURES



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County Administrator

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**SUBJECT: CAPTURING COSTS OF SOFTWARE PROJECTS**

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**DEPARTMENT RESPONSIBLE: ALL COUNTY DEPARTMENTS**

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## 1. STATEMENT

Pima County acquires or develops computer software. Due to the costs involved in acquiring or developing, configuring, testing, and installing software systems, it is required by the Governmental Accounting Standards Board, Statement No. 51, that all such costs are tracked and reported correctly.

All software projects must be approved by the Information Technology Strategic Planning and Prioritization Committee, refer to Administrative Procedure 27-8, Software Acquisition and Development Procedure. As part of the approval process, an estimated total project cost will be determined. The average project cost is generally three times the acquisition cost or the estimated development cost of software. If the project cost, as approved by the Information Technology Strategic Planning and Prioritization Committee (SDLC Committee), does not equal or exceed \$100,000, no further tracking will be required.

All software project costs estimated to equal or exceed \$100,000 must be tracked using the Programs within Advantage Financial, Maximo and Planning and Budgeting.

The Capital Asset Section of the Department of Finance and Risk Management will review the costs of all software projects to determine which of the total costs are capitalizable.

This procedure establishes how costs are to be captured for software projects expected to exceed \$100,000.

## 2. TOTAL PROJECT COSTS DEFINED

Costs of a software project may consist of:

- The purchase price of the software.
- The purchase price of required new hardware directly attributable to the new software, e.g.; required new storage, special-purpose field units, special desktop units, etc.
- The cost of professional services of non-employees.
- The labor cost, including wages and benefits.

Costs for new equipment, if required for the new software, are to be included in the project's costs using a separate Work Order/Task. If the cost of the equipment meets the capitalization threshold for equipment, it will be capitalized separately. Capitalization decisions will be made by the Capital Asset Section, Department of Finance and Risk Management.

## 3. COST CATEGORIES

There are three broad categories of costs that are to be captured. Each of these categories has specific costs that are to be captured separately.

- Preliminary Project Stage costs, also called Initiation and Planning costs, consist of all costs up to and including the preparation of the Request for Proposal if the decision is to buy the software or all costs up to and including the decision to create the software.
- Application Development Stage costs, also called Execution and Monitor & Control costs, consist of all costs through the completion of final testing of the software.
- Post-Implementation Stage costs, also called Closing and Maintenance costs, consist of all costs after the software has been tested and is ready for use.

It should be noted that the timing of these costs is not linear; closing costs may occur at the same time as Monitor & Control costs.

Table 1 shows further detail of costs to be captured during each phase.

Table 1

| <i>Preliminary Project Stage</i> |   | <i>Application Development Stage</i> |                                    | <i>Post-Implementation Stage</i> |                                    |
|----------------------------------|---|--------------------------------------|------------------------------------|----------------------------------|------------------------------------|
| <b>Phase I</b>                   | <b>Phase II</b>   | <b>Phase III</b>                     | <b>Phase IV</b>                    | <b>Phase V</b>                   | <b>Phase VI</b>                    |
| <b>Initiation (INI)</b>          | <b>Planning (PLG)</b>                                   | <b>Execution (EXE)</b>               | <b>Monitor &amp; Control (MAC)</b> | <b>Closing (CLS)</b>             | <b>Maintenance</b>                 |
| Determine need                   | Determine to buy or build                               | Purchase or design software          | Install to hardware                | Complete documentation           | Required changes                   |
| Formulate alternatives           | Identify activities                                     | Purchase of required hardware        | Testing                            | Complete operational procedures  | Upgrades and enhancement           |
| Complete Business Case           | Prepare RFP or develop/ document Business System Design | Develop or configure software        | Revise based on testing            | Train users                      | Testing                            |
| Complete Statement of Work       |   | Design interfaces                    |                                    | Go "live"                        | Changes to procedures and training |
|                                  |   | Code instructions                    |                                    |                                  |                                    |

Once the software has been implemented and used, there may be costs of acquiring and testing upgrades and enhancements to the software. If the upgrade or enhancement materially increases the functionality of the product or is a major, significant upgrade or enhancement, then the costs of acquisition and testing should be captured and capitalized. The SDLC Committee shall determine whether the upgrade or enhancement meets these criteria.

#### 4. PROJECT CREATION

For projects whose costs are to be tracked by the CIP Unit (those projects with expected costs greater than \$100,000):

The CIP Section of the Department of Finance and Risk Management will create the Project ID.

There will be five Phases for each Project:

- Initiation, designated as INI
- Planning, designated as PLG
- Execution, designated as EXE
- Monitor & Control, designated as MAC
- Closing, designated as CLS

Costs will be attached to the Project/Phase by using a Work Order/Task for each type of cost. Hardware requisitions will contain the Work Order/Task so that those costs will be attached to the Project/Phase.

Projects are to be closed at the end of Phase V, Closing.

## **5. CAPITALIZATION**

The capitalization threshold for software is \$100,000. If a software project's capitalizable costs equal or exceed \$100,000, the appropriate costs of the project will be capitalized.

When Phase IV is complete, capitalizable costs are complete. Department of Finance and Risk Management can audit the costs and capitalize the software.

## **6. OFFICE OF PRIMARY RESPONSIBILITY**

Each Operational Department is responsible for the proper capture of software acquisition and development costs and for reporting those costs to the Department of Finance and Risk Management.

## **7. REFERENCE**

Administrative Procedure 27-8 (2007). Software Acquisition and Development Procedure.

Administrative Procedure 3-24 (2005). Pima County Computer Equipment and Software Acquisition Review Procedure.

American Institute of Certified Public Accountants. (1998). Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (Statement of Position 98-1). New York, NY: Author.

Board of Supervisors' Policy D 22.7 (2006). Capitalization Policy for Fixed Assets.

Governmental Accounting Standards Board of the Financial Accounting Foundation. (2007). Statement No. 51 of the Governmental Accounting Standards Board: Accounting and Financial Reporting for Intangible Assets. Norwalk, CT. Author.