

ADMINISTRATIVE PROCEDURES



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County Administrator

SUBJECT: **CAPTURING COSTS OF SOFTWARE PROJECTS**

DEPARTMENT RESPONSIBLE: **ALL COUNTY DEPARTMENTS**

I. 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 CIP ACE and the Project/Subproject module in Synergen. Tracking will be done by the CIP Unit and the Department.

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.

II. 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.

III. 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

Preliminary Project Stage		Application Development Stage		Post-Implementation Stage	
Phase I	Phase II	Phase III	Phase IV	Phase V	Phase VI
Initiation (INI)	Planning (PLG)	Execution (EXE)	Monitor & Control (MAC)	Closing (CLS)	Maintenance
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.

IV. PROJECT/SUBPROJECT CREATION

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

The Financial Systems Support Section of the Department of Finance and Risk Management in conjunction with the CIP Unit will create the Project ID. See procedure FN-42, Capital Project/Subproject Maintenance in Synergen.

There will be five Subprojects 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/Subproject 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/Subproject.

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

V. 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. As with any other capital item, the Department is to create an Asset Change Request so that the Department of Finance and Risk Management can audit the costs and capitalize the software. See procedure FN-44, Asset Change Request, for instructions.

VI. 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.

VII. 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.