



ADS Chapter 629

Accounting for USAID-Owned Property and Internal Use Software

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ADS 629 – Accounting for USAID-Owned Property and Internal Use Software

629.1 OVERVIEW

Effective Date: 07/14/2000

This ADS chapter provides accounting policies and required procedures for USAID-owned property, plant, and equipment (**PP&E**), USAID-owned operating materials and supplies, USAID property in the custody of contractors, and internal use software. The Statements of Federal Financial Accounting Standards (**SFFAS**) were used in developing these policies and procedures.

When accounting treatment for specific circumstances or areas is not discussed in this chapter, refer to [SFFAS Number 3](#), Accounting for Inventory and Related Property; [SFFAS Number 6](#), Accounting for Property, Plant and Equipment; and [SFFAS Number 10](#), Accounting for Internal Use Software, as appropriate for guidance.

629.2 PRIMARY RESPONSIBILITIES

Effective Date: 06/19/2020

- a. All **Bureaus** are responsible for appointing an Accountable Property Officer responsible for maintaining the itemized cost records for each software acquired or developed.
- b. The **Bureau for Management, Office of the Chief Financial Officer, Central Accounts and Reporting Division (M/CFO/CAR)**
 - Maintains the general ledger accounts for capitalized property and operating materials and supplies;
 - Issues an annual data call to the appropriate offices requesting information on capitalized property and operating material and supplies; and
 - Provides tracking of proceeds retained at Missions for funds control.
- c. The **Bureau for Management, Office of Management Services, Overseas Management Division (M/MS/OMD)** provides data on capitalized motor vehicles to M/CFO/CAR for accounting purposes and financial statement preparation.
- d. The **Bureau for Management, Office of Management Services, Consolidation, Property and Services Division (M/MS/CPD)** provides data on capitalized USAID domestic personal and real property (**excluding information technology property**) to M/CFO/CAR for accounting purposes and financial statement preparation.

- e. The **Bureau for Management, Office of Management Services, Information Records Management (M/MS/IRD)** provides data on capitalized USAID domestic information technology property to M/CFO/CAR for accounting purposes and financial statement preparation.
- f. The **Bureau for Policy and Program Coordination, Office of Resource Allocation (PPC/RA)**
- Allots replacement property sales proceeds to the appropriate geographic Bureau and/or the Office of Inspector General (IG) in the first quarter of each fiscal year using any appropriate funding source available, and
 - Furnishes a listing of the amounts of the sales proceeds by originating offices to the Bureau or IG so that sales proceeds can be returned in the form of an allowance to the field office.
- g. The **Bureau for Humanitarian Assistance (BHA)**
- Manages of all disaster assistance-acquired operating materials and supplies, and
 - Provides annual reporting of capitalized asset data to M/FM/CAR for accounting purposes and financial statement preparation.
- h. The **Bureau for Global Health, Office of Population and Reproductive Health (GH/PRH)** manages of all population-related operating material and supplies and for providing data to the Chief Financial Officer (CFO) for accounting purposes and financial statement preparation.
- i. The **Mission Executive Officer (EXO) or other designated USAID officer :**
- Provides information on capitalized overseas property (**nonexpendable property, information technology property, and real property**), excluding capitalized motor vehicles, to the Mission Controller, who is responsible for submitting the capitalized report to M/CFO/CAR;
 - Furnishes information required for the data call on operating materials and supplies that meet the reporting threshold (see **629.4.2f**); and
 - Furnishes information to the Mission Controller on costs applicable to construction work in progress.
- j. The **Mission Controller** is responsible for ensuring that adequate financial controls are in place and financial records and reports accurately reflect the status of Mission PP&E in accordance with these policies.

In doing this, the Mission Controller

- Responds to M/CFO/CAR's call for data on capitalized property and operating material and supplies;
- Maintains close liaison with property management and other personnel concerned with property to provide assurance that values reported are accurate;
- Participates in the annual FMFIA review of internal controls over property as a reasonable option in carrying out the Mission Controller's responsibilities in this area; and
- Follows up with the appropriate Bureau or activity to ensure timely receipt of the allotment for residual proceeds.

k. Cognizant Technical Officers (CTOs) are responsible for the following:

- Obtains the Annual Report of Government Property in Contractor's Custody from contractors holding USAID-owned capitalized PP&E;
- Reviews the report for accuracy; and
- Forwards the report to M/CFO/CAR.

629.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

629.3.1 Financial Documentation Responsibilities

Effective Date: 07/14/2000

Financial documentation is any documentation that impacts on or results in financial activity. It is not limited to documentation within the Controllers' or CFO operations, but includes any source material causing or resulting in a financial transaction. Cognizant Technical Officers (CTOs), Loans/Grants Officers, Strategic Objective (**SO**) teams, etc., are responsible for retaining financial documentation and ensuring its availability for audit.

Basic financial documentation retention rules follow:

- If an action will result in a financial transaction, it must be documented;
- Source documentation must be readily available for audit (by either the Office of Inspector General or a responsible audit activity);

- The general rule of thumb for retention of financial documents is seven years; however, retention times may vary, so please refer to retention by document type in [ADS 502](#), The USAID Records Management Program. The specific financial Records Disposition Schedules are located in the Mandatory Reference Section of ADS 502, under Records Disposition Schedule, USAID/W, Chapter 15, Fiscal Management Records; and Records Disposition Schedule, USAID, Chapter 35, Financial Management Records. See also the National Archives and Records Administration (**NARA**) General Records Schedules, GRS 6, Accountable Officers' Account Records; and GRS 7, Expenditure Accounting Records.

629.3.2 Property, Plant, and Equipment (PP&E)

629.3.2.1 General Classification of PP&E

Effective Date: 07/14/2000

PP&E is tangible assets, including land, land rights, capital leases, and property owned by USAID in the hands of others, that

- Have an estimated useful life of two or more years;
- Are not intended for sale in the ordinary course of business; and
- Are intended to be used or available for use by USAID.

All USAID PP&E is categorized as general PP&E as defined in SFFAS No. 6 for recognition and measurement principles and disclosure requirements. (See [SFFAS No. 6 paragraph 26](#))

629.3.2.2 Capitalization Threshold

Effective Date: 07/14/2000

For financial accountability, USAID capitalizes individual items of PP&E that have a unit acquisition cost of \$25,000 or more and an estimated useful life of two years or more. PP&E that does not meet this threshold requirement is expensed and not retained in financial accountability records as an asset. The dollar thresholds for physical accountability differ from the above criteria.

629.3.2.3 Financial Versus Physical Accountability

Effective Date: 07/14/2000

PP&E is accounted for in USAID's accounting system and controlled in property accountability systems or records. Our financial management system utilizes information in property management systems designed and managed by various organizations. Financial records do not duplicate the detailed property records maintained by the responsible property offices. The reporting from property

management systems must utilize data elements and standardized formats that support the financial management system and the general ledger structure. These property accountability systems serve as subsidiary ledgers for recording PP&E. For internal control purposes, M/CFO/CAR must reconcile capitalized property balances in the financial accounts annually with the detailed property records. Details of our overseas personal property accountability system and real property accountability system are contained in [ADS 534](#), Personal Property Management Overseas, and [ADS 535](#), Real Property Management Overseas.

629.3.2.4 Valuation and Recording of PP&E

Effective Date: 07/14/2000

Record all new PP&E assets at cost at least annually in the accounting records. The recorded cost includes all costs incurred to bring the PP&E to a form and location suitable for its intended use in operations. If the required costs, such as shipping charges, are not billed until after the end of the fiscal year, use estimated charges for capitalized assets year-end reporting purposes and adjust when the actuals are known. The basis for the estimated charges must be a reasonable and consistent estimation base, fully supported and documented. (See [SFFAS No. 6, Paragraph 26](#), for examples of PP&E costs.) For constructed assets, the capitalized value includes all costs incurred to place the asset in service.

a. Real Property. M/CFO/CAR records in USAID's general ledger accounts real property acquisitions, additions, improvements, alterations, rehabilitations, or replacements that meet the capitalization criteria threshold of \$25,000 or more and with a useful life of two years or more. Accounting records do not duplicate the detailed property records maintained by M/MS/OMD that are primarily based on Mission reporting. M/CFO/CAR maintains the general ledger accounts for real property at a summary level for Land; Structures, Facilities, & Leasehold Improvements; Construction in Progress; and Assets Under Capital Lease to simplify reconciliation with amounts recorded in detailed property records.

b. Personal Property. M/CFO/CAR maintains the general ledger accounts for personal property at a summary level for Furniture & Fixtures, Equipment, Vehicles, Contractor-Held Property, and Information Technology Assets to provide information that will help assess the efficiency and effectiveness of asset management. Financial records do not duplicate the detailed property records maintained by the cognizant property offices.

c. Construction Work In Progress. The EXO is responsible for furnishing information to identify costs applicable to construction work in progress. The EXO and the Controller must be in agreement at the start of work as to the nature of the work and its proper accounting treatment. Costs of repairs and maintenance are expensed and not included in work in progress, while costs of items to be capitalized in accordance with USAID policy are accumulated in work in progress until the asset is completed.

This analysis must extend to individual tasks under the contract where necessary, since some work may be of a capital nature and other work may not.

d. Capital Leases. USAID capitalizes PP&E under a lease if the terms of the agreement are essentially equivalent to an installment purchase of PP&E and meet the capitalization policy criteria in this ADS chapter. Historically, this category of assets has come about through leasing real property abroad with an option to purchase. The option price at which USAID has the right to purchase the real property makes exercise of the option almost certain.

To value a Capital Lease for accounting purposes, compute the present value of the lease payments plus the option price and compare that amount to the fair value of the property at the time the lease is executed. Use the Treasury Average Interest Rate for Marketable Interest-Bearing Debt in your present value calculations (see **Monthly Statement of the Public Debt, Summary Page**, for this interest rate). The lower of the two figures will be the amount recorded in the financial records. Fair value should be established using the best method available in the country (cost/benefit should be a factor in getting to fair value) including preferably the use of a bona-fide real estate appraiser. Land that is not subject to depreciation must be estimated separately from the value of the building at the time fair value is developed.

629.3.2.5 Reporting and Reconciliation

Effective Date: 09/20/2019

In September of each year, M/CFO/CAR will send an Excel spreadsheet to all offices that have to report on PP&E. All capitalized property acquired or disposed of during the fiscal year will be included in the report except for vehicles. M/CFO/CAR will request and receive all quarterly changes for vehicles from M/MS/OMD. Missions must report all vehicle changes to M/MS/OMD in accordance with current vehicle update processes. Missions are responsible for maintaining auditable supporting documentation for all assigned vehicles, updating the Integrated Logistics Management System (ILMS) property management system, and for Mission Controllers and EXOs to continue their reconciliation efforts to ensure reliable and accurate vehicle records at the Mission, as well as in ILMS.

PP&E that no longer provides service in our operations must also be identified, since special accounting treatment has to be observed in accordance with **629.3.5**, Disposal of Capitalized PP&E. Reporting offices must ensure that all capitalized property is accurately reported and the information returned to M/CFO/CAR within the reporting deadline.

After posting the additions and deletions to the various PP&E accounts reported by the cognizant property offices, M/CFO/CAR reconciles the amounts recorded in the general ledger and the cognizant property office figures. Any discrepancies must be researched and appropriate action taken to adjust the records before the audited financial statement is prepared.

629.3.2.6 Depreciation

Effective Date: 07/14/2000

Accounting transactions affecting USAID-owned PP&E that meet the capitalization criteria, whether held by contractors or USAID, must be recorded in USAID's general ledger asset accounts. In accordance with SFFAS Number 6 and OMB directives on the **Form and Content of Agency Financial Statements**, USAID's records and financial statements must reflect depreciation on our capitalized assets. The information is collected from overseas Missions, Washington Offices, and contractors and then analyzed to calculate depreciation, using a straight-line method of depreciation. Depreciation expense is recognized on all capitalized PP&E except land. M/CFO/CAR collects the following information on capitalized assets from the responsible offices in order to calculate depreciation:

- A brief description of the asset, including serial number;
- The cost of the asset;
- The date of acquisition;
- The age of the asset (if purchased used);
- The estimated useful life of the asset (this figure can be based on Internal Revenue Service (IRS) guidelines for depreciation adjusted as required to reflect operating conditions); and
- The estimated salvage value of the asset.

629.3.2.7 Capitalization of Improvements

Effective Date: 09/20/2019

When material costs are incurred to improve an existing asset, the EXO or Accountable Property Officer must determine whether the costs are recorded as an expense or added to the basis of the asset and capitalized (see **629.3.6.2b – Costs Captured for Capitalization**). Determination is based on the following:

- Costs must be equal to or greater than \$25,000, and
- Improvements result in one or more of the following conditions:
 - The improvement extends the useful life of the assets by at least three years or 25 percent of the original life, whichever is greater.

- The improvement increases the fair value of the asset by at least 25 percent.
- The improvement provides some other benefit that the EXO or Accountable Property Officer determines to be sufficient justification to capitalize the amount.

629.3.2.8 Depreciation of Capital Improvements

Effective Date: 07/14/2000

If the material cost improvement extends the useful life of the asset, depreciate the new book value by the same method previously used over the remainder of the new life. If the material cost improvement does not change the remaining useful life, depreciate the new book value by the same method as previously employed.

629.3.2.9 Leasehold Improvements to Property of Others

Effective Date: 07/14/2000

Leasehold improvements that equal or exceed \$25,000 must be capitalized and depreciated over the life of the improvement or the life of the lease, whichever is less. In general, the government may not make permanent improvements to non-government-owned land. The basic premise for exceptions to the policy against permanent improvements to private property is whether USAID interests in the overall project are adequately protected with respect to such improvements. In making such a determination, the following general criteria must be addressed in order to allow the use of USAID funds for such improvements:

- a. The expenses of the improvements are nominal in comparison with the total price of the contract;
- b. The improvements are incident to and essential for the accomplishment of the authorized purpose of the appropriation; and
- c. The improvements are used for our principal benefit (Comptroller General Decisions: 46 Comp. Gen. 26, 27, (1966); 42 Comp. Gen. 480 (1953)).

629.3.2.10 Transfer of PP&E

Effective Date: 07/14/2000

If an asset is transferred to USAID by another Federal agency, the cost of the asset must be the cost recorded by the transferring entity for the PP&E net of accumulated depreciation. If the receiving entity cannot reasonably ascertain those amounts, the cost of the PP&E must be its fair value at the time it is transferred. Since the financial treatment of intergovernmental PP&E transfers impact intergovernmental eliminations on the financial reports, check the Treasury FMS web site to ensure the proper accounting treatment is used. The site is: <http://www.fms.treas.gov/ussql/index.html>.

629.3.2.11 Exchange of PP&E

Effective Date: 07/14/2000

The cost of general PP&E acquired through exchange is the fair value of the PP&E surrendered at the time of exchange (Exchanges between Federal entities are accounted for as transfers). If the fair value of the PP&E acquired is more readily determinable than that of the PP&E surrendered, the cost must be the fair value of PP&E acquired. If neither fair value is determinable, the cost of the PP&E acquired must be the cost recorded for the PP&E surrendered net of any accumulated depreciation. Any difference between the net-recorded amount of the PP&E surrendered and the cost of the PP&E acquired is recognized as a gain or loss. In the event that cash consideration is included in the exchange, the cost of general PP&E acquired must be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received.

629.3.2.12 Borrowed or Loaned Equipment

Effective Date: 07/14/2000

Capitalized equipment borrowed from other organizations is not recorded in USAID's financial records. Capitalized equipment on loan to other organizations is retained in USAID's financial records.

629.3.2.13 PP&E Procured by Grantees

Effective Date: 07/14/2000

PP&E purchased by grant recipients is not recognized in USAID's accounting records since these items are not owned by USAID.

629.3.3 USAID Property in the Custody of Contractors

Effective Date: 07/14/2000

In accordance with the Federal Acquisition Regulations (FAR) Subpart 45.105, contractors' records are the official PP&E records of government property in their hands. The Annual Report of Government Property in Contractor's Custody is the official document for contractor reporting of USAID PP&E in their possession. USAID's financial records and statement account balances are updated based on the annual report.

629.3.3.1 Title to Property

Effective Date: 07/14/2000

When property is acquired by a contractor for use overseas and the contract funds were obligated under a Strategic Objective Agreement or Project Agreement, title to all nonexpendable property is normally vested in the cooperating government. The terms of the contract must clearly identify where title to any property acquired under the

contract is vested. The Cognizant Technical Officer (CTO) must exercise care to ensure that only those Annual Reports of Government Property in Contractor's Custody that contain USAID-owned property, as opposed to cooperating country property, are forwarded to the CFO or the Mission Controller.

629.3.3.2 Property Accounting Systems for Contractors

Effective Date: 07/14/2000

USAID does not prescribe a specific system of property accounting for contractors. However, any system employed by a contractor requires written approval by the cognizant property administrator. This process ensures adequate contractor control, accuracy, and consistency in reported information. CFO financial personnel can assist as required in assessing the contractor's property accounting system.

629.3.3.3 Identification of Contractors with Capitalized Equipment

Effective Date: 07/14/2000

The Contracting Officer at the time of contract execution or extension must determine whether the particular contractor is likely to purchase property with contract funds having a unit value equal to or in excess of \$25,000 and a useful life equal to or in excess of two years. Based on this determination, the CTO is responsible for ensuring that the Annual Report of Government Property in Contractor's Custody is submitted on time by contractors holding capitalized PP&E and that the reports are materially accurate. The CTO must furnish copies of contractor reports with capitalized property to the CFO or the Mission Controller.

629.3.3.4 Reporting by Contractors

Effective Date: 07/14/2000

The reporting clause in USAID's contracts on U.S. Government property held by USAID contractors was developed prior to the establishment of the capitalization threshold at \$25,000. In addition, the prescribed report does not provide sufficient information for capitalized property to be separated from all other accountable property and for depreciation to be calculated. Until this clause is amended for all existing and future contracts requiring, among other things, a complete listing of all property meeting our capitalized guidelines, and including description, serial number (if applicable), acquisition cost, date of acquisition, estimated life span, and estimated salvage value, the CTO must request the existing report.

629.3.3.5 Posting the Value of Contractor-Held Property to the General Ledger

Effective Date: 07/14/2000

Since the Annual Report of Government Property in Contractor's Custody reports data as of the end of the contract year and is not due from contractors until 30 days after the end of the contract year, M/CFO/CAR will have to update the general ledger balances in some cases in the succeeding fiscal year.

629.3.4 USAID-Owned Operating Materials and Supplies

Effective Date: 07/14/2000

Operating materials and supplies consist of tangible personal property to be consumed in normal operations of the Agency. USAID's financial records show these values as

- a. Operating materials and supplies held for use,
- b. Operating materials and supplies held in reserve for future use, or
- c. Excess, obsolete, and unserviceable operating materials and supplies.

629.3.4.1 Valuation of Operating Materials and Supplies

Effective Date: 07/14/2000

Operating materials and supplies must be recognized and reported as assets when produced or purchased. They are reported as an operating expense in the period they are issued to an end user for consumption in normal operations. Operating materials and supplies must be valued on the basis of historical cost or any other valuation method whose results reasonably approximate historical cost. Examples of valuation methods that approximate historical cost and that are acceptable to the CFO are first-in, first-out (FIFO); weighted average; moving average; standard cost; and latest acquisition cost. Any valuation method other than those listed above must have the concurrence of the CFO before it may be used.

629.3.4.2 Reporting Requirements

Effective Date: 07/14/2000

M/CFO/CAR will send a data call in September of each year to the appropriate Washington and field offices, requesting the value of USAID-Owned Operating Materials and Supplies as of September 30. Negative reports are required from those geographic locations where the value is less than \$25,000.

629.3.4.3 Reporting Threshold

Effective Date: 07/14/2000

If –

- a. Operating materials and supplies are not significant amounts,
- b. Operating materials and supplies are in the hands of the end user for use in normal operations, or
- c. It is not cost-beneficial to apply the consumption method of accounting,

then expense the operating materials and supplies when purchased and do not report them in the financial records or statements as an asset.

USAID's policy is that operating materials and supplies at any one geographical location that do not equal or exceed \$25,000 are insignificant in amount and are not considered a reportable asset of the Agency.

629.3.4.4 Operating Materials and Supplies Held in Reserve for Future Use

Effective Date: 07/14/2000

USAID has significant operating materials and supplies for foreign disaster assistance and for population planning purposes held in reserve for future use. M/CFO must disclose in the annual financial statement the criteria considered by program management for holding operating materials and supplies in reserve for future use. Examples of factors to be considered in developing the criteria are

- a. All relevant costs associated with holding these items (including storage and handling costs);
- b. The expected replacement cost when needed;
- c. The time required to replenish operating materials and supplies;
- d. The potential for deterioration or pilferage; and
- e. The likelihood that a supply of the item will be available in the future.

629.3.4.5 Physical Inventory of Operating Materials and Supplies

Effective Date: 06/19/2020

The value of operating materials and supplies accounts must be confirmed periodically through a physical inventory. Mission physical inventories of operating materials and supplies are covered in [ADS 535](#), Real Property Management Overseas. The Program Managers for **BHA** and the GH/PRH are responsible for determining the frequency and nature of the physical inventory necessary to ensure that accurate inventory accounts are maintained and that the inventory is physically safeguarded.

629.3.5 Disposal of Capitalized PP&E

Effective Date: 07/14/2000

PP&E may no longer provide service because it either suffered damage, became obsolete in advance of expectations, or was identified as excess. If prior to disposal, retirement, or removal from service, any capitalized PP&E no longer provides service in our operations, the value of such property along with accumulated depreciation must be removed from the general ledger accounts.

When the asset is disposed of, PP&E must be removed from general PP&E accounts along with associated accumulated depreciation/amortization.

Any difference in the book value of the PP&E and its expected net realizable value must be recognized as a gain or a loss in the period of adjustment. The expected net realizable value must be adjusted at the end of each accounting period and any further adjustments in value recognized as a gain or a loss. However, no additional depreciation/amortization may be taken once such assets are removed from general PP&E in anticipation of disposal, retirement, or removal from service.

629.3.6 Internal Use Software

Effective Date: 07/14/2000

The USAID policy on internal use software has been drafted to implement the Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 10, Accounting for Internal Use Software, dated June 1998, concerning the capitalization of software. This standard requires the capitalization of the cost of internal use software, whether it is commercial off-the-shelf (COTS), contractor developed, or internally developed.

The standard covers costs related to the design, program, installation, and implementation of software. For COTS software, only costs incurred following delivery should be considered. Costs prior to delivery are included in the COTS package costs.

This standard will assist Chief Financial Officers (CFOs) and Chief Information Officers (CIOs) in carrying out the responsibilities enumerated in the Clinger-Cohen Act of 1996 with respect to the acquisition and accountability of information systems software. SFFAS No. 10, paragraph 24, requires that “each Federal entity should establish its own threshold”. The Agency implemented SFFAS No. 10 on July 1, 2001.

629.3.6.1 Trigger Point for Capitalization

Effective Date: 07/14/2000

Costs are recognized for capitalization when the project manager believes the total costs to completion and implementation will reach or exceed the capitalization threshold. Specific costs to be captured are enumerated in a later section, **629.3.6.2b**. When the software has been successfully tested and accepted for operation, the amounts must be included in general ledger account **1830.11** as Internal Use Software (IUS), and Operating Expenses must be recorded in **6100.11** as capitalization entries. **6710.11** records Amortization Expenses and **1839.11** records Accumulated Amortization on IUS.

For specific details on methodologies, see the Internal Mandatory Reference, Methodologies.

a. Capitalization Threshold

The capitalization threshold for internal use software costs for appropriated fund accounts is \$300,000 or above. Costs below the threshold level must be expensed. When determining if the amount of the development effort meets the threshold, do not limit the project cost by fiscal year. Use the total constructed cost data of the entire project.

b. Useful Life

The useful life of the software is normally no more than five years. However, the estimated useful life must be consistent with the estimated useful life used for planning the software acquisition. The useful life for software acquired or developed exclusively for research projects must be determined by the expected length of the research. When it is determined that a software is to be replaced due to new technology, the useful life initially established must be reduced to the remaining period of use. Likewise, when an enhancement is made that extends the life of the software, the established life must be extended for amortizing the remaining costs.

c. Date Software Is Put in Place

The date that the software is put in place is the date the software is both successfully tested and accepted for operation. Amortization of the software costs must begin on this date.

629.3.6.2 Amortization of Internal Use Software

Effective Date: 07/14/2000

Internal use software must be amortized over its useful life on a straight-line basis. A half-year convention may be used. For example, for software estimated to have a five-year useful life, one-tenth of the value would be amortized in year one; one-fifth in years two through five; and the remaining one-tenth in year six. For each module or component of a software project, amortization begins when that module or component has been successfully tested. If the use of a module is dependent on the completion of another module(s), the amortization of that module must begin when both that module and the other module(s) have successfully completed testing. Any additions to the book value or changes in useful life must be accounted for during the period of the change and future periods. No adjustments should be made to previously recorded amortization.

a. Software Design Phases

Software life-cycle phases include the preliminary design phase, the software development phase, and the post-development phase. The identification of the software life-cycle phase will determine which costs are expensed or capitalized. Costs occurring during the preliminary design and post-implementation/ operational phases

will be expensed. Costs incurred during the software development phase should be capitalized if it is envisioned that total costs will meet or exceed the capitalization threshold.

In the ***preliminary design phase***, Bureaus/Missions will likely do the following:

- (1) Make strategic decisions to allocate resources between alternative projects;
- (2) Determine performance requirements of the software;
- (3) Invite vendors to perform demonstrations of the software;
- (4) Explore alternative means of achieving performance requirements (make or buy decisions, choosing the platform that the software will run on, etc.);
- (5) Determine the technology needed to achieve performance requirements;
- (6) Select a vendor for COTS software; and
- (7) Select a consultant to assist in software development or installation.

In the ***software development phase***, Bureaus/Missions will likely do the following:

- (1) Use a system to manage the project;
- (2) Track and accumulate life-cycle cost and compare it with performance indicators;
- (3) Determine the reasons for any deviations from the performance plan and take corrective action; and
- (4) Test the deliverables to verify that they meet the specifications.

In the ***post-development phase***, Bureaus/Missions will likely do the following:

- (1) Operate the software, undertake preventive maintenance, and provide ongoing training for users;
- (2) Convert data from the old to the new system;
- (3) Undertake post-implementation review comparing asset usage with the original plan; and
- (4) Track and accumulate life-cycle cost and compare it with the original plan.

b. Costs Captured for Capitalization

Capitalized cost must include the full cost (direct and indirect costs) incurred during the software development stage.

Bureaus/Missions whose systems cannot identify indirect cost with developmental software must allocate costs as prescribed in USAID guidance on Managerial Cost Accounting. Such costs should be limited to costs incurred after management does the following:

- (1) Authorizes and commits to a computer software project;
- (2) Believes that it is more likely than not that the project will be completed;
- (3) Believes that the software will be used to perform the intended function with an estimated service life of two years or more; and
- (4) Completes the conceptual formulation, design, and testing of possible software project alternatives (the preliminary design stage).

Such costs include those for new software (e.g., salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants' fees; rent; and supplies) and documentation manuals. For COTS software, capitalized cost also includes the amount paid to the vendor for the software (but excludes any maintenance costs built into the agreement). For contractor-developed software, capitalized cost also includes the amount paid to a contractor to design, program, install, and implement the software. Material internal costs incurred by the Agency to implement the COTS or contractor-developed software and otherwise make it ready for use must be capitalized. The acquisition cost of enhancements to existing internal use software (and modules thereof) *should* be capitalized when it is more likely than not that they will result in significant additional capabilities.

Major enhancements to software that add new capability or functionality to the existing software must also be capitalized. Additional capability or functionality extends the ability of a computer software system to perform tasks and/or makes the application easier to use.

c. Costs That Must Be Expensed

The following costs are expensed:

- (1) Data conversion costs incurred for internally developed, contractor-developed, or COTS software, including the cost to develop or obtain software that allows for access or conversion of existing data to the new software;
- (2) Costs incurred after final acceptance testing has been successfully completed. Where the software is to be installed at multiple sites, capitalization ceases at each site after testing is complete at that site;
- (3) Training costs;
- (4) Maintenance costs;
- (5) Minor enhancements resulting from ongoing systems maintenance;
- (6) Enhanced versions of software for a nominal charge;
- (7) Costs incurred solely to repair a design flaw or to perform minor upgrades that may extend the useful life of the software without adding capabilities; and
- (8) The un-amortized cost of the old software **must** be expensed when testing on the new replacement software has been successfully completed.

d. Expenditures That Extend the Life of a Software Application

Costs that extend the useful life of a software application must be added to the value of the asset. The aggregated cost, net of any previous amortization, must be amortized over the remaining useful life of the software.

e. Impairment

Impairment is recognized and measured when one of the following occurs and is related to post-implementation/operational software and/or modules:

- (1) The software is no longer expected to provide substantive service potential and will be removed from service; or
- (2) A significant reduction occurs in the capabilities, functions, or uses of the software (or a module).

If the software remains in use, the loss due to impairment is measured as the difference between the book value and either

- (1) The cost to acquire software that would perform similar remaining functions; or
- (2) The portion of book value attributable to the remaining functional elements of the software.

The loss must be recognized upon impairment and the book value of the asset reduced accordingly. If neither (1) nor (2) can be determined, the book value continues to be amortized over the remaining useful life of the software. If the impaired software is to be removed from use, measure the loss due to impairment as the difference between the book value and the net realizable value (NRV), presumably zero. The NRV, if any, must transfer to the Equipment-Pending Disposal account until such time as the software is disposed of.

f. Developmental Software

In instances where the Project Manager concludes that it is no longer more likely than not that the developmental software (or a module) will be completed and placed in service, the costs accumulated in general ledger account 1830.11 must be reduced to reflect the expected NRV, if any, and the loss recognized. The following are indications of this:

- (1) Expenditures are neither budgeted nor incurred for the project;
- (2) Programming difficulties cannot be resolved on a timely basis;
- (3) Major cost overruns occur;
- (4) The cost of developing the software will significantly exceed the cost of COTS software available from third party vendors and management intends to obtain the product from vendors rather than completing the project;
- (5) Technologies that supersede the developing software product are introduced; and/or
- (6) The organization or project for which the product was being created is being discontinued.

629.3.6.3 Software Property Records, Documentation, and Presentation

Effective Date: 09/20/2019

The inventory record, which is based on itemized costs, must include, at a minimum

- (1) Name of software;

- (2) Method of acquisition (COTS, contractor developed, internally developed);
- (3) Cost of capitalized software (separately for costs in development and in-use);
- (4) Useful life of capitalized software;
- (5) Amortization per accounting period;
- (6) Cost of expensed software; and
- (7) Enhancement costs to software (both capitalized and expensed).

The files to support the property records must include copies of invoices and contracts, labor cost methodologies, licensing arrangements, and other necessary documentation to support the software costs. This also would include constructed cost data developed and maintained by the property officer to support internally developed software capitalization.

All projects for which capital assets are procured must track actual costs and maintain records. Contractors must provide the Accountable Property Officer with costs for all capitalized items in order to formulate allocations for each accounting period. Contractors are not required to provide a break-down of all capitalized items on their invoices if the proper allocations are maintained by the property officer. These allocations should be traceable back to invoices or obligations.

Documentation must be readily available to support USAID's property records.

a. Capitalization Based on the Fiscal Year

Software costs must be capitalized according to the Federal government fiscal year (October 1 – September 30).

b. Accrual Basis

In accordance with generally accepted accounting practice on accruing costs, all costs incurred during an accounting period must be capitalized in the respective period regardless of the fiscal year associated with the funding source. They must be recorded quarterly in both the General Ledger and the Constructed Cost Data, which are or may serve as Property Records for Internal Use Software.

After being capitalized, the internal use software is amortized quarterly once it is put into use.

c. **Adjusting Accounting Records to Meet Capitalization Thresholds**

The accounting entries and initial adjustments to implement SFFAS No. 10 will be different depending upon the following:

- (1) Whether the software was obtained by appropriated funds or revolving funds;
- (2) Whether the software at October 1, 2000, was completed and in-use or under development; and
- (3) Whether the Bureau/Mission had implemented the previous policy to capitalize at \$25,000 and above.

Record the accounting entries as one-time adjustment. These adjustments will be fully supported by work papers that must be readily available to auditors for review.

d. **Disclosures**

The disclosures required by SFFAS No. 6, paragraph 45, for PP&E are applicable to internal use software. For material amounts, the following must be disclosed in the financial statements regarding the software:

- (1) The cost, associated amortization, and book value;
- (2) The estimated useful life for each major class of software; and
- (3) The method of amortization.

629.3.6.4 Physical Inventory

Effective Date: 07/14/2000

An inventory of all accountable software must be taken annually. The software Accountable Property Officer may enlist the assistance of custodial officers, who may be appointed to maintain accountability of software in specific locations and to resolve the issue of missing (**or found**) software. The inventory also includes any software not yet installed. Based on the results of the inventory, the Bureau/Mission accounting office makes adjustments, as necessary, for capitalized software not in-use, abandoned, or donated to other organizations. (See [ADS 547](#), Property Management of Information Technology (IT) Resources, for details on the physical inventory procedures.)

629.3.6.5 Reconciliation of Software Property Records to Financial Records

Effective Date: 07/14/2000

The constructed cost data maintained for capitalized software in development and in-use must be reconciled with the general ledger accounts quarterly.

629.3.7 Depositing Proceeds from Real and Replacement Property Sales

Effective Date: 07/14/2000

Proceeds result from the sale or exchange of assets purchased with either appropriated fund dollars or foreign currency originally funded by appropriated fund dollars.

629.3.7.1 Real Property

Effective Date: 07/14/2000

USAID has authority under Section 585 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1991 to deposit the sales proceeds of real property purchased overseas into a property management fund. Funds deposited to the property management fund will remain available to the Agency until expended for real property purchased using 636(c) authority of the Foreign Assistance Act of 1961. Treasury established the Property Management Fund as account 72X4175. Deposit real property proceeds (other than Working Capital Fund (WCF)-funded, project-funded, or trust-funded real property) in this account.

Depositing Real Property Proceeds. Real property proceeds, other than WCF-funded, project-funded, or trust fund-funded real property, are deposited as follows:

- (1) Dollar proceeds must be deposited to 72X4175, Property Management Fund.
- (2) Local currency proceeds must be deposited to the United States Disbursing Officer's (USDO) local bank account. Credit the dollar equivalent amount to 72X4175 after checking with the USDO to ensure that the local currency proceeds can be used in a reasonable time. When the amount of the local currency proceeds from the sale cannot be used in a reasonable time, the USDO will provide guidance on how the deposit is to be handled. The speed with which local currency proceeds can be converted to dollars should be factored into the decision on selling the property.

629.3.7.2 Replacement Property

Effective Date: 07/14/2000

Replacement property encompasses practically all nonexpendable personal property that USAID purchases. Replacement property is normally disposed of by sealed bid sale or public auction and the proceeds used for the purchase of similar property. The Federal Property and Administrative Services Act of 1949 gives all agencies the authority to collect proceeds from the sale of personal property, which can be applied to

replace similar property during the fiscal year in which the property is sold and one fiscal year after that. The purchase of new property and sale of old property can occur over a period of time and at different physical locations.

The Agency uses a broad interpretation of “similar property.” The intent of 40 USC 485c is to allow proceeds to purchase items comparable to those that were authorized for purchase with the original funds. Basically stated, the limitations on what can be bought with the proceeds are only those that would apply to the original funds. For example, if the original funds were OE, then the proceeds are limited to any property that OE could purchase.

USAID has a replacement property account established with the U.S. Treasury. The proceeds from the sale of replacement property are credited to account 72F3845, Proceeds of Sale, Personal Property.

Beginning in FY 2003, the proceeds from the sale of overseas nonexpendable property will be allowed back to the Mission or RIG that generated the sale proceeds in the year following the sale. Collections of replacement property proceeds have to be shown as an offsetting collection on line 3 of Standard Form 133, Report on Budget Execution and Budgetary Resources (SF-133), and apportioned by OMB before they can be made available for use by USAID, which contributes to the delay in getting the proceeds to the Mission sooner.

Sales proceeds will not be returned to Offices that are in the process of closing. Instead, these proceeds will be used as part of the worldwide availability of nonexpendable replacement funds.

Sales proceeds generated by field offices will not be a factor in establishing the Operational Year Budget (OYB) level for those offices that have sold replacement property.

a. Replacement Property Exceptions. Project-funded nonexpendable personal property titled in the host country is usually not sold or disposed of by the Mission. The agreement titling the property in the host country ordinarily provides specific disposal instructions and such provisions must be observed. If project-funded property with the title vested in USAID is sold, the proceeds of the sale must be deposited back to the respective appropriation used for the procurement and not to 72F3845. The proceeds of trust-funded nonexpendable personal property that is sold must be deposited back to the trust fund unless there are other instructions from the host country. The proceeds of WCF nonexpendable personal property that is sold must be deposited back to the WCF for further processing.

b. Depositing Nonexpendable Replacement Property Proceeds. Deposit nonexpendable replacement property proceeds, other than WCF-funded, project-funded, or trust fund-funded, as follows:

- (1) Deposit dollar proceeds to 72F3845, Proceeds of Sale, Personal Property.
- (2) Deposit local currency proceeds into the United States Disbursing Officer's (USDO) local bank account and credit the dollar equivalent amount to 72F3845.

When the amount of the local currency proceeds from the sale cannot be used in a reasonable time, the USDO will provide guidance on how the deposit is to be handled. The speed with which local currency proceeds can be converted to dollars should be factored into the decision on selling the property.

629.3.7.3 Reporting

Effective Date: 07/14/2000

The EXO must prepare a separate [OF-132](#), Property Disposal Authorization and Survey Report (PDA), for the disposal of property acquired with operating expense funds, funds made available to the Inspector General (IG), or other appropriations. The Mission Controller is required to report each year to M/CFO/CAR, with a courtesy copy to M/MS/OMD, all dollar credits made to 72X4175 and 72F3845. The breakout of sale proceeds by deposit account and then by regular operating expense funds, IG operating expense funds, and other appropriations is essential as part of the fiscal year-end closing. This data allows M/CFO/CAR to reconcile the individual Mission totals with the Treasury Department's worldwide total of deposits to these accounts and to seek OMB apportionment. (See Reporting Proceeds)

629.3.7.4 Returning Proceeds to the Field

Effective Date: 07/14/2000

M/CFO/CAR will furnish a listing of sales proceeds by Bureau and by individual country and RIG office to the Bureau for Management, Office of Financial Management, Central Accounts and Reporting Division/Funds Control-General Ledger Team (M/CFO/CAR/FCGL) and PPC/RA early in the first quarter of FY 2004 and each fiscal year after that.

M/CFO/CAR/FCGL will take action to have the reported replacement property sales proceeds apportioned by OMB and will notify PPC/RA when OMB has completed the apportionment. PPC/RA will ensure that replacement property in at least the amount of the sales proceeds was purchased on a worldwide basis in the fiscal year that just ended. PPC/RA must use any appropriate funding source available in the first quarter, including deobligated no-year OE funds, to initiate an allotment to each geographic Bureau and to the IG. A copy of the listing by individual country to the Bureau or the IG will be provided so that funds can be allowed to the field office that generated them.

Proceeds from the sale of real property are not returned to Missions for their use, but are retained for centralized Agency utilization.

629.4 MANDATORY REFERENCES

629.4.1 External Mandatory References

Effective Date: 09/20/2019

- a. [Monthly Statement of the Public Debt, Summary Page](#)
- b. **OMB Circular A-11, Appendices [A](#) and [B](#)**
- c. [Statement of Federal Financial Accounting Standards \(SFFAS\) No. 3 - Accounting for Inventory and Related Property](#)
- d. [SFFAS No. 6 - Accounting for Property, Plant and Equipment](#)
- e. [SFFAS No. 10 - Accounting for Internal Use Software \(Effective 10/1/2000\)](#)

629.4.2 Internal Mandatory References

Effective Date: 07/14/2000

- a. [ADS 502, The USAID Records Management Program](#)
- b. [ADS 534, Personal Property Management Overseas](#)
- c. [ADS 535, Real Property Management Overseas](#)
- d. [ADS 547, Property Management of Information Technology \(IT\) Resources](#)
- e. **Methodologies** [This reference will be issued in a later revision to this chapter. For information, please contact the Bureau for Management, Office of Management Planning and Innovation.]
- f. **Reporting Proceeds** [This reference will be issued in a later revision to this chapter. For information, please contact the Bureau for Management, Office of Management Planning and Innovation.]

629.4.3 Mandatory Forms

Effective Date: 07/14/2000

- a. [SF-133, Report on Budget Execution and Budgetary Resources](#)

629.5 ADDITIONAL HELP

Effective Date: 07/14/2000

- a. [Treasury Financial Management Services Standard General Ledger web site](#)

629.5.1 Optional Forms

Effective Date: 07/14/2000

Text highlighted in yellow indicates that the adjacent material is new or substantively revised.

a. [OF-132, Property Disposal Authorization and Survey Report](#)

629.6 DEFINITIONS

Effective Date: 07/14/2000

See the [ADS Glossary](#) for all ADS terms and definitions.

Accountable Property Officer (APO)

An official appointed by Agency Property Management Officers who is responsible for nonexpendable property or information technology (IT) property. The IT APO is separately designated by IRM. This official is charged with budgeting, accountability, receipt, storage, issuance, record keeping, inventory, reporting, and certification of all property resources records and reports within the accountable area. For IT property this pertains to all Federal Information Processing (FIP) resources. (Chapter 629)

Assets

Tangible or intangible items owned by USAID that would have probable economic benefits that can be obtained or controlled by a USAID entity. (Source: SFFAS 6) (Chapter 629)

Book Value

The net amount at which an asset or liability is carried on the books of account (also referred to as carrying value or amount). It equals the gross or nominal amount of an asset or liability minus an allowance or valuation amount. (Source: SFFAS 6) (Chapters [623](#), 629)

Capital Leases

Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease transfers ownership of the property to the lessee at the end of the lease term or contains an option to purchase the leased property at a bargain, the lease should be classified as a capital lease. (Source: SFFAS 6) (Chapter 629)

Capitalize

To record and carry forward into one or more future periods any expenditure from which the benefits or process will then be realized. (Source: SFFAS 6) (Chapter 629)

Constructed Cost Data

Cost data extracted from various sources (usually parts of various of contractors' invoices) which is used to accumulate expenses associated with a particular internal software development effort. Once the data is accumulated, and if the capitalization criteria are met, the constructed cost data becomes the source documentation for recording the accounting entry. This requires the worksheet (usually an electronic spreadsheet) and the supporting documentation to be readily available for audit and

retained in accordance with the requirements for retention of financial documentation in ADS 502. (Chapter 629)

Depreciation

Depreciation is the systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life. (Source: SFFAS 6) (Chapter 629)

Fair Value

Fair value is the price for which an asset could be bought or sold in an arm's-length transaction between unrelated parties (e.g., between a willing buyer and a willing seller) or the price (usually representative) at which bona fide sales have been consummated for products of like kind, quality, and quantity in a particular market at any moment of time. (Source: SFFAS 6) (Chapter 629)

First-in, First-out (FIFO)

A cost flow assumption; the first goods purchased or produced are assumed to be the first goods sold. (Source: SFFAS 3) (Chapter 629)

Historical Cost

Historical cost is the cash equivalent price of operating materials and supplies and property, plant, and equipment (PP&E) including all appropriate purchase and production costs to bring the items to their original condition and location, at the date of acquisition. This cost does not change over time. (Chapter 629)

Information Technology Property

Any equipment or interconnected system or subsystem of equipment that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information. It includes, but is not limited to "computers, ancillary equipment, software, firmware, and similar procedures, services (including support services) and related resources." (Chapter 629)

Internal Use Software

Software that is purchased from commercial vendors "off-the-shelf," internally developed, or contractor-developed solely to meet USAID's internal or operational needs. (Chapter 629)

Land Rights

Land rights are interests and privileges held by USAID in land owned by others, such as leaseholds, easements, water and waterpower rights, diversion rights, submersion rights, rights-of-way, and other like interests in land. (Source: SFFAS 6) (Chapter 629)

Latest Acquisition Cost

Includes all amounts, except interest, paid to a vendor to acquire an item. (Source: SFFAS 3) (Chapter 629)

Leasehold Improvements

Leasehold improvements include, but are not limited to, the cost of acquiring and installing new ceilings, permanent walls, lighting, carpeting, air conditioning, and safety and protective devices with a useful life longer than two years, and additions and betterments to buildings and other facilities. (Chapter 629)

Moving Average

An inventory costing method used in conjunction with a perpetual inventory system. A weighted average cost per unit is recomputed after every purchase. (Source: SFFAS 3) (Chapter 629)

Nonexpendable Personal Property

Property such as furniture, office machines, information technology (IT) equipment, and communications equipment that: (1) is complete in itself; (2) does not lose its identity or become a component part of another item when used; and (3) is of a durable nature with an anticipated useful life of over two years. (Chapters [534](#), 629)

Operating Materials and Supplies

Operating materials and supplies consist of tangible personal property to be consumed in normal operations. Examples are computer paper and general office supplies for operating materials and supplies held for use and tents, blankets, cots, and contraceptive materials for operating materials held for future use. (Source: SFFAS 3) (Chapter 629)

Personal Property

Personal property includes such items as vehicles, furniture, equipment, supplies, appliances, and machinery. It refers to all property not otherwise classified as land, land improvement, buildings, and structures that are normally referred to as real property. (Chapters [534](#), 629)

Program Manager

Senior member of a Development Objective Team or Mission Technical Office who is responsible for the management of an entire program, if not individual projects, activities and/or awards who may not be the same as the Program Manager designated in GLAAS. ([Chapter 300](#), 629)

Property Administrator

The authorized representative of the Contracting Officer assigned to administer the contract requirements and obligations relating to government property. (Source: FAR 45.501) (Chapter 629)

Property, Plant, and Equipment (PP&E)

PP&E consists of tangible assets, including land, land rights, capital leases, and property owned by USAID in the hands of others, that

- a) Have an estimated useful life of two or more years,
- b) Are not intended for sale in the ordinary course of business, and
- c) Are intended to be used or available for use by USAID. (Chapter 629)

Real Property

A parcel or plot of land and any structures contained thereon, including, but not limited to, offices, garages, warehouses, residences, schools, and recreational facilities.

(Source: 6 FAM 700) (Chapters [535](#), 629)

Recognize

Recognize means to record an amount in entity accounts and to report a dollar amount on the face of the Statement of Net Costs or the Balance Sheet either individually or so that the amounts are aggregated with related amounts. (Source: SFFAS 6) (Chapter 629)

Replacement Property

Replacement property is any personal property for which there is a continuing need on a worldwide basis by the parent agency, such as office furniture and equipment; household furniture, furnishings, and equipment; motor vehicles and automotive spare parts; tires; and any other property having a continued general use. The proceeds of sale of replacement property are used to purchase similar property. Replacement property is not declared excess by the post except as noted in 6 FAM 227.1-2.

(Chapters [534](#), [536](#), 629)

Standard Cost

Predetermined expected unit costs, which are acceptable for financial reporting purposes if adjusted periodically to reflect actual results. (Source: SFFAS 3) (Chapter 629)

Useful Life

Useful life is the normal operating life of the asset in terms of utility to the owner.

(Source: SFFAS 10) (Chapter 629)

Weighted-Average

A periodic inventory costing method where ending inventory and cost of goods sold are priced at the weighted-average cost of all items available for sale. (Source: SFFAS 3) (Chapter 629)

Working Capital Fund

A revolving fund that operates as an accounting entity. In these funds, the assets are capitalized and all income is in the form of offsetting collections derived from the funds' operations and available in their entirety to finance the funds' continuing cycle

operations without fiscal limitation. A working capital fund is a type of intragovernmental revolving fund. (Source: GAO Glossary of Budget Terms) (Chapters 629, [635](#))

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