Plant, Property and Equipment Procedure
Acquisitions: Internal Use Software
Effective: March 2008

Overview

To describe the process for identifying and capitalizing software for internal use.

Responsibilities:

ISC

ISC is responsible for collecting the costs associated with the software development, including internal personnel costs from the technical and functional departments involved and reporting these costs to PMG on a quarterly basis. ISC is also responsible for notifying PMG when the phase of the project is complete and the asset is considered to be placed in service.

Property Management Group

The Property Management Group (PMG) is responsible for ensuring that costs associated with the development of internal use software are capitalized in accordance with Generally Accepted Accounting Principles (GAAP). PMG is responsible for transferring any expenses from the expense account to the asset account based on information provided to it by ISC on a quarterly basis. PMG is also responsible for adding new assets or adjusting the cost of existing assets while the assets are in development. PMG will also capitalize the assets upon their completion and placement into service.

Business Procedure

1. Internal-use software (including application, operating system, infrastructure, and utilities) has the following characteristics: (a) the software is acquired, internally developed or modified solely to meet Penn's internal needs and (b) during the software's development or modification, no plan exists to market the software externally.

    a. Moveable Equipment - Software – The external cost of purchased internal use software applications in excess of $5,000 (exclusive of maintenance, support and/or training costs) with a useful life of one year or more must be capitalized. These acquisitions should be made using object code 1871 Moveable Equipment Clearing Account, and will have a category code of “Moveable-Computer Software.” Refer to Acquisitions: Assets Purchased via BEN Buys for procedures to capitalize computer software.

    b. Fixed Equipment – Software, Major Systems - When the aggregate software project costs (exclusive of hardware costs) will equal or exceed $500,000 during the Application Development Stage (PMAP[1] Design and Development Phases), the costs must be capitalized. The Application Development Stage generally includes:

1) design of the chosen path including software configuration and software interfaces,
2) coding,
3) installation of hardware, and
4) testing including parallel testing.

The category code for these projects is “Fixed-Software - Major Systems.”

2. When a new software project has been identified, ISC must provide PMG with the following property information related to the in process software:

    - Description (name of the system or project)
    - Category (Fixed-Software, Major Systems)
    - Installation location (Building/Floor/Room)
    - Responsible ORG
    - Custodian Name
    - Custodian Telephone Number
    - Tagging Contact
    - Tagging Contact Telephone Number
    - Whether the Government Retains Title, Y/N

3. PMG will then create a new “in process” asset in BEN Assets. No value is assigned to an “in process” asset until actual costs are incurred.

4. ISC is responsible for accumulating costs associated with each project identified as meeting the capitalization threshold. On a quarterly basis, ISC will forward to PMG documentation supporting costs to be capitalized for the previous quarter. PMG will record a manual entry in the General Ledger (G/L) to move these costs from expense to the Internal Software Clearing Account (**1879 Building and Fixed Equipment**). This entry will be made at a “top-side” level (Org 0005) and will be posted back into the quarter to which it relates on or before workday five of the current month.

5. In the current month, PMG will record a manual journal entry in the G/L to transfer the costs from Org 0005 to Org 0033.

6. PMG will also add the costs reported by ISC to the software “in process” asset in BEN Assets.

7. After the asset cost has been adjusted, BEN Assets will create a journal to move the acquisition costs from the clearing account to the in process cost account (1835 Internal

[1] Project Management at Penn

Use Software Costs under Development). These entries will be posted to the G/L at the end of each month when depreciation is run and the current period in BEN Assets is closed.

8. When the project phase has been completed and the asset placed in service, ISC will notify PMG of completion and of the in-service date.

9. PMG will then capitalize the asset by changing the status from "in process" to "capitalized" and updating the in-service date. PMG should also change the tagging status from "Ready for Tagging" to "Untaggable" and enter the Tagging Date.

10. After the asset has been capitalized in BEN Assets, the system will create a journal to move the asset from the "in process" object code (1835 Internal Use Software Costs Under Development) in the G/L to the depreciable object code (1820 Building & Fixed Equipment). These entries will be posted to the G/L at the end of each month when depreciation is run and the current period in BEN Assets is closed.

11. PMG should monitor the activity in the 1879 clearing account to identify any transactions that need to be cleared. PMG should investigate any transactions for which it has not received information to record an asset.

Reconciliations

1. On a monthly basis, PMG will reconcile the assets in the balances in the 1879 clearing account in the G/L. Reconciling items should be aged and should be appropriately addressed and cleared within 90 days.

2. On a monthly basis, PMG will reconcile the new assets created in BEN Assets with the activity in the G/L. Any reconciling items must be reviewed and addressed promptly. Reconciling items should be aged and should be cleared within 90 days.

3. At the end of each month PMG will reconcile the acquisition cost of in-process assets in BEN Assets with the balance in the 1825 Internal Use Software under Development account in the G/L. Reconciling items should be aged and should be appropriately addressed and cleared within 90 days.

4. At the end of each month PMG will reconcile the acquisition cost of capitalized assets in BEN Assets with the balance in the 1820 Building & Fixed Equipment account in the G/L. Reconciling items should be aged and should be appropriately addressed and cleared within 90 days.