



ORDER

U.S. Department of
Transportation

Office of the Secretary
of Transportation

DOT 2700.13

12-5-17

Subject: FINANCIAL MANAGEMENT CONTROL OF PROPERTY

1. PURPOSE. This Order updates and prescribes policy in accordance with official Statement of Federal Financial Accounting Standards (SFFAS) pronouncements of the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-123, and other generally accepted accounting principles (GAAP) for recording and accounting control for Department of Transportation's (DOT) property, plant, and equipment (PP&E) capital assets. This order also covers the recording and accounting for internal use software guidance provided in SFFAS 10.
2. CANCELLATION. DOT 2700.12, Financial Management Control of Property, 8/2/77, DOT 2700.12, Change 1, 2/24/84, DOT 2700.12, Change 2, 2/25/88, and Section 5.1.1.i, PP&E, in the DOT Financial Management Policies Manual, April 2008.
3. BACKGROUND. This Order sets forth overall standards to be followed in accounting for assets at DOT. The key objective of this Order is to ensure that all assets provided, created, or acquired by DOT Operating Administrations (OAs) are accounted for including assets in transit and assets in the hands of contractors, private parties, and other government agencies. This Order applies to all DOT OAs, including the Office of Inspector General (OIG) based on DOT Order 1320.16C and the Office of the Secretary (OST). The acquisition of property through purchase represents an economic exchange of one asset, cash or appropriations, for another asset, property. Assets must be under continuous accounting control of DOT OAs from acquisition to disposition. Such control helps ensure proper and authorized use as well as adequate care and preservation, since no asset can be acquired, put into use, transferred, written down, written off, or disposed of, without the proper authorization and processes necessary to document and record transactions.
4. REFERENCES. The primary capitalization and expense references for accounting of DOT's PP&E include the following:
 - a. The Chief Financial Officers Act of 1990, Pub. L. 101-576 (CFO Act) was intended to improve the Government's financial management, outlining standards of financial performance and disclosure.

- b. SSFAS 6, Accounting for Property, Plant and Equipment, as amended by SFFAS Nos 11, 14 and 16. SSFAS No. 6 calls for recognition of general PP&E as an asset on a Federal entity's financial statements via balance sheet where assets are charged to expense through depreciation over the expected life of the asset.
- c. SFFAS 10, Accounting for Internal Use Software. This standard requires capitalization of the cost of internal use software whether it's commercial off the shelf (COTS), contractor developed or internally developed.
- d. SFFAS 35, Estimating the Historical Cost of General Property, Plant and Equipment. This standard provides policy on using reasonable estimates of original transaction data to value PP&E assets when actual cost information is unavailable.
- e. OMB Circular A-123, *Management's Responsibility Enterprise Risk Management and Internal Control*, which defines management responsibility for internal control at Federal agencies. It requires agencies to establish, assess, correct, and report on management controls for Agency operations. Capitalization procedures are subject to the requirements of OMB Circular A-123.
- f. DOT Policy on Internal Developed Software in CFO-2010-004, July 13, 2010.
- g. Federal Aviation Administration (FAA) Financial Policy Manual Volume 5, Chapter 3, Property, Plant and Equipment, which can be found at <https://employees.faa.gov/staffoffices/afn/finance/policy/FinancialManual/>
- h. U. S. Department of Treasury's Bureau of Fiscal Service provides in the Treasury Financial Manual (TFM) U.S. Government Standard General Ledger Account Transactions (USSGL) at <https://tfm.fiscal.treasury.gov> for the recording of fixed assets and the associated depreciation, amortization and retirement.

5. DEFINITIONS.

- a. Amortization: The gradual extinguishment of an asset's recorded value through a systematic allocation of depreciation over its projected useful life.
- b. Asset: Any item of economic value owned by a DOT OA or held in a fiduciary capacity under the control of an OA. An item may be physical in nature or intangible where an OA may have a right to control the item (e.g., system software assets). The value of an asset is expressed in terms of its acquisition cost and control of the asset must be the result of a past transaction or event such as a purchase. An asset is an economic resource available to an OA that has the following essential characteristics:
 - (1) It has a capacity to contribute to the accomplishment of the OA's mission;
 - (2) The OA can use the asset or control access of others to the asset; and

- (3) The transaction cost or event giving rise to an OA's right to, or financial control over, the asset has already occurred.
- c. **Capital Assets:** Capital assets are PP&E in the federal accounting standards. DOT capital assets are further defined as real property and personal property:
- (1) Real Property - Land, buildings, real estate assets under lease, and other structures are considered real property.
 - (2) Personal Property - Any tangible property not classifiable as real property is considered personal property. Any tangible property not meeting the definition of real property is considered personal property provided it is not consumed in use, does not lose its identity when put into use, and does not ordinarily become an indivisible component of other property. Personal property includes equipment, capital leases of equipment, and internal use software.
- d. **Capitalization:** The classification and carry-forward of all or a portion of an asset's cost into one or more future periods when its benefits or proceeds will then be realized.
- e. **Capitalization Threshold:** The criteria applied for determining whether an asset should be capitalized or expensed.
- f. **Commercial Off-the-Shelf Software (COTS):** System software which is ready-made and available for sale, lease, or license to the general public. COTS often refers to computer software or hardware systems and may also include free software with commercial support. COTS purchases are alternatives to in-house developed software.
- g. **Contractor-developed software:** Software that an entity is employing a contractor to design, program, install, and implement – including new software and existing or purchased software that has been modified.
- h. **Depreciation:** The systematic and rational allocation of an asset's cost, less its estimated salvage or residual value, over its estimated useful life.
1. **Direct Cost:** The cost of resources directly consumed by and specifically identified within an activity. Direct cost is assigned to activities by the direct tracing of resource units consumed.
- j. **Expense:** Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or the incurrence of liabilities that result in decreases in equity.

- k. **Full Cost:** A managerial accounting method that describes when all fixed and variable costs, including manufacturing costs, are used to compute the total cost per unit. Full costing includes these costs when computing the amount of money it takes to produce and distribute one unit of output. Full cost of an output produced by a responsibility segment is the sum of:
- (1) the costs of resources consumed by the segment that directly or indirectly contribute to the output; and
 - (2) the costs of identifiable supporting services provided by the other responsible segments within the reporting entity or other reporting entities.
- l. **Indirect Cost:** The cost of resources that are jointly or commonly used to produce two or more types of output but are not specifically identified with any of the outputs, e.g., general administrative expenses, technical support, security, equipment, and utilities. DOT OAs should assign indirect cost allocations on a reasonable and consistent basis.
- m. **Internal Use Software:** Software that is purchased from commercial vendors that is developed solely to meet an organization's internal or operational needs.
- n. **Internally Developed Software:** Software that employees are actively developing, possibly with the use of contractors to meet an organization's internal or operational needs.
- o. **Leasehold Improvement:** Or build out is an improvement made to a leased building by an organization that has the right to use this leasehold improvement over the term of the lease. Leasehold improvements are investments in improvements to the leased assets that enhance their usefulness. Generally, DOT OAs should capitalize non-recurring leasehold improvement expenditures over capitalization thresholds as directed by this order that add to the service potential of any leased asset.
- p. **License:** The legal instrument governing the usage or redistribution of software.
- q. **Software:** The application and operating system programs, procedures, rules, and any associated documentation pertaining to the operation of a computer system.
- r. **Useful Life:** The normal operating life of an asset in terms of utility to the owner.
6. **POLICY.** This Order directs DOT OAs to develop and maintain robust oversight over capitalized PP&E by focusing on operating performance and stewardship. This Order directs DOT OAs to implement proper accounting procedures and related controls over

PP&E to satisfy the requirements of management, applicable laws and regulations, and accounting principles and standards. For purposes of this section, PP&E includes all real and capitalized personal property. Proper disclosure, such as the basis of property valuation, life of the asset, salvage value (if any), and the total amount of fully depreciated assets, is required by this Order.

- a. **Capitalization Criteria.** PP&E or improvements to PP&E that meet the following three criteria below must be capitalized as directed by this Order and SFFAS 6, *Accounting for Property, Plant, and Equipment*.
 - (1) Estimated useful life of two years or more;
 - (2) Not intended for sale in the ordinary course of operations; and
 - (3) Acquired or constructed with the intention to be used, or available for use, by the entity or with the intention of donating it within the federal government.

- b. **Capitalization Rules:** The capital thresholds as directed by this Order are detailed in the table below:

Asset Type	Cost	Depreciation/Amortization
Equipment	\$100,000	Over useful life. Minimum useful life of 2 years.
Bulk Purchase Equipment	\$100,000	Per item cost can be less than \$25,000 if expensing individual items will distort periodic expenses. Assets should be grouped by category and depreciated over the useful life. Minimum useful life of 2 years.
Internal Use Software	\$200,000	Smaller of expected rate of obsolescence or 36 months
Bulk Purchase of Software and Software System Module	\$200,000	Per item cost must meet \$200,000 threshold. 36 month period based on product release date
Software Enhancements or Improvements	\$200,000	Cost added to remaining depreciated balance and a new schedule can be set based on smaller of the new life or 36 months
Buildings and Structures	\$200,000	Over useful life. Minimum useful life of 2 years.
Leasehold Improvements	\$100,000	Lessor of the lease term or useful life of the improvement. Must meet criteria for improvement to asset. Minimum useful life of 2 years.

- c. Capitalized costs should consist of acquisition cost plus other direct costs to put the asset in service. All general PP&E with a useful life of at least two years and an original acquisition cost of \$100,000 or \$200,000 for structures and facilities and for internal use software must be capitalized and reported in the financial statements. If cost information is not available, the estimated fair market value at the time of acquisition must be recorded (see SFFAS 35).

- d. Any exception to this policy on capitalization threshold should be supported by analysis and documentation and submitted to the Deputy CFO for approval. Capitalization at lesser amounts is permitted based on agency discretion.

- e. Acquisition cost of assets: Includes all costs incurred to bring the asset to a form and location suitable for its intended use or a cost that adds value to existing assets that:
- (1) Increases the useful life of the asset;
 - (2) Increases the capacity of the asset; or
 - (3) Improves the performance of the asset.
- f. Capitalized acquisition costs may include:
- (1) Amounts paid to vendors;
 - (2) Transportation charges to point of use;
 - (3) Handling and storage costs;
 - (4) Labor and other direct or indirect production costs;
 - (5) Acquisition and preparation costs for buildings and other facilities;
 - (6) Engineering, architectural, and other outside services for designs and plans;
 - (7) Legal and recording fees and damage claims;
 - (8) Fixed equipment and related installation costs required for activities in a building or facility;
 - (9) Fair market value of equipment and facilities donated to the federal government; or
 - (10) Material amounts of interest cost paid.
- g. Construction in progress is valued at actual (direct) costs plus applied overhead and other indirect costs. The straight-line method is used to depreciate capitalized assets.
- h. Bulk-Purchased Items: When the aggregated cost of bulk-purchased items, individually costing less than \$100,000, would be distorted when charged as an expense in a given accounting period; such items should be grouped by category, capitalized, and depreciated over the useful life of the items.
- i. Capital Leases: A lease that transfers substantially all the benefits and risks of ownership (which may or may not result in taking title) to the lessee is a capital lease. Accounting treatment for a capital lease results in establishing an asset and capitalization of an amount that equals the present value of the lease payments or the fair market value of the asset, whichever is less. There are four criteria for making the determination as to whether a lease should be classified as a capital lease. If a lease meets one or more of the following four criteria below, it is classified as a capital lease:

- (1) Transfers ownership of the leased property to the lessee by the end of the lease term;
- (2) Contains an option to purchase the leased property at a bargain price;
- (3) The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property. This criterion is not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the lease property; or
- (4) At the inception of the lease, the present value of rental, and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair market value of the leased property.

j. **Operating Lease:** A lease which meets none of the four criteria above for a capital lease is an operating lease. Operating lease payments are treated as charges to operating expenses and are not capitalized as an asset. Operating leases result in an expense to the annual accounting period.

7. **INTERNAL USE SOFTWARE CRITERIA.** DOT OAs will capitalize the costs incurred (both direct and indirect) to develop internal use software for software projects that meet the capitalization threshold with aggregate costs of \$200,000 or more and a useful life of two years or greater. This includes the costs incurred for DOT personnel to modify COTS software or contractor developed software to make the software ready for use.

Under SFFAS 10, the three phases of the project life cycle for software projects from an accounting perspective are the preliminary design phase, the software/application development phase, and the post implementation phase. The following shows the capitalization/expense costs by life cycle phases:

- a. **Preliminary Design Phase:** DOT OAs will expense the costs incurred in the preliminary design phase. These are costs incurred before beginning the application development phase and include:
 - (1) Requirements gathering;
 - (2) Conceptual formulation of alternatives;
 - (3) Evaluation of alternatives;
 - (4) Determination of existence of needed technology; and
 - (5) Final selection of alternatives.

- b. **Software/Application Development Phase:** DOT OAs will capitalize costs incurred in the application development phase, provided the aggregate cost is \$200,000 or more. DOT limits capitalized costs to costs incurred after completion of the preliminary design phase, up to successful completion of final acceptance testing. These costs include both internal and external costs for the following activities:

- (1) Design of chosen path;
 - (2) Software configuration;
 - (3) Software interfaces;
 - (4) Coding/programming;
 - (5) Installation of hardware;
 - (6) Initial security authorization, authority to operate, or certification and accreditation (C&A);
 - (7) Testing that includes unit, system, user acceptance, integration, and parallel processing as applicable;
 - (8) The full cost, both direct and indirect, of developing internal use software application. (Indirect costs include project management and administrative personnel costs, rent, supplies, and utilities that are reasonably allocable to the internal use software project.);
 - (9) Direct costs of materials, labor, and services for developing or obtaining software, such as fees paid to third parties for services and costs incurred to obtain software from third parties;
 - (10) Costs incurred to acquire, purchase, or obtain tools or other software to access or convert from the old system to the new system if the software project meets or exceeds the incurred cost capitalization threshold. However, costs incurred related to data conversion from the old system to the new system should be expensed;
 - (11) Project management and earned value management activities; and
 - (12) Development of technical documentation, enterprise architecture documentation, user manuals, and initial training material (although the cost of mass-producing such items should be expensed).
- c. Post Implementation Phase: DOT OAs will expense any costs incurred in the post implementation phase such as training, data conversion and application maintenance.
- (1) DOT OAs will expense the costs of software and related business process reengineering activities;
 - (2) Software costs associated with terminated projects, maintenance prior to disposal, and actual disposal costs will be expensed; and
 - (3) Any costs incurred on part of impaired software will be expensed.
- d. COTS Software: DOT OAs will capitalize the amount paid to a vendor to acquire title or copyright (not license) to COTS software for a software project with aggregate acquisition/development cost of \$200,000 or more. DOT OAs will expense software licenses for COTS.
- e. Contractor Developed Software: DOT OAs will capitalize the amount paid to a contractor to design, program, install, or implement software for a software project with aggregate acquisition/development costs of \$200,000 or more. This includes the amount paid to a contractor to modify COTS or existing software and to otherwise make software ready for use.

- f. **Integrated Software:** Computer software that is integrated into (embedded) and necessary to operate equipment, rather than perform an application, will be considered part of the equipment (e.g., airport radar and computer operated lathes). This equipment with integrated software will be capitalized based on aggregate cost per the directions in this Order.
- g. **Bundled Products and Services:** The cost of software purchased as part of a package of products and services (e.g., training, maintenance, data conversion, reengineering, site licenses, and rights to future upgrades and enhancements) shall be allocated as capitalizable and non-capitalizable (expensed) costs based on a reasonable estimate of the value of the individual products or services. Costs that are not susceptible to allocation between maintenance and relatively minor enhancements should be expensed.
- h. **Software Licenses:** DOT OAs will expense software licenses or maintenance fees incurred to use or maintain software. Software licenses can cover periods ranging from the entire estimated service life of the software to annual or more frequent periods and are considered similar to leases. In such cases, lease accounting concepts will govern. DOT OAs will evaluate software licenses and multiyear service contracts that are similar to leases in accordance with lease capitalization standards as described in this Order. For leases and hence software license purchases, the general PP&E capitalization threshold of \$ 200,000 will apply. Software licensing that is one year or less and falls below the PP&E capitalization threshold of \$200,000 will be expensed and not capitalized.
- i. **Bulk Purchases:** DOT OAs will account for bulk purchases of the same software acquired under the same contract as a group, subject to the \$ 200,000 threshold for capitalization purposes. If the same software is purchased under two or more contracts, costs shall be accounted for and thresholds applied separately. Software acquired through separate contracts shall be accounted for separately.
- j. **Maintenance Costs:** DOT OAs will expense all maintenance costs.
- k. **Service Contracts:** DOT OAs will expense all service contracts.
- l. **Data Conversion Costs:** DOT OAs will expense all data conversion costs. These costs include the purging or cleansing of existing data, reconciling or balancing old data to data in a new system, creating new/additional data, and converting the old data to the new system.
- m. **Enhancements:** Upgrades and enhancements normally require new software specifications and changes to all or part of the existing software
 - (1) DOT OAs will capitalize the cost of upgrades or enhancements to existing internal use software when it is more likely than not that it will result in significant additional capabilities or functionality.

(2) DOT OAs will expense the costs of upgrades or enhancements resulting from ongoing maintenance that merely extend the useful life or capacity of the software.

8. REPORTING. This Order sets forth guidance in reporting costs incurred for DOT PP&E and internal use software.

- a. PP&E work in progress, sometimes referred to as construction in progress (CIP), and internal use software capitalizable costs under development will be accumulated as work in progress until final acceptance. DOT OAs will accumulate all capitalizable costs based on TFM and USSGL guidance.
- b. Modules of a CIP or software project will begin amortization/depreciation when the asset or software has been fully tested, accepted and brought into service. In the event an asset in progress or system software development is dependent on the completion of another module or project CIP, amortization begins when all modules or projects necessary for operational use have been successfully tested, accepted and brought into use.
- c. PP&E and capitalized software will remain in the general property plant and equipment accounts if it remains in service of DOT operations. This includes software and PP&E that has been fully amortized but still being used. Assets and software will be recorded to its appropriate asset account at its net realizable value until the time of disposal based on TFM and USSGL guidance consistent with GAAP and SFFAS requirements. Assets and software shall be removed from the general property plant and equipment accounts when it no longer supports DOT operations.

9. RESPONSIBILITIES. DOT OAs will perform the PP&E and internal use software financial management reporting and control responsibilities as prescribed in this Order.

- a. The Chief Financial Officer and Assistant Secretary for Budget and Programs is the designated senior official responsible for:
 - (1) Establishing and issuing of this Order;
 - (2) Providing overall financial management leadership for DOT;
 - (3) Setting forth guidance to DOT to classify and report costs incurred for PP&E and internal use software projects as directed by this Order, including the conditions to be met and the circumstances that must exist for the creation and disposition of PP&E and internal use software; and
 - (4) Requiring DOT OAs to follow Treasury's TFM and USSGL guidance when recording applicable PP&E and internal use software financial transactions and events.
- b. The Director, Office of Financial Management is the designated senior official responsible for:

- (1) Assisting DOT OAs and program areas in meeting the requirements and directions of this order;
- (2) Coordinating an overall Department-wide approach of reviewing, improving, and reporting on PP&E and internal use software in accordance with this Order; and
- (3) Preparing and submitting the financial reporting for the Department.

c. The Heads of the DOT OAs are responsible for:

- (1) Ensuring the directions in this order relating to PP&E and internal use software are followed.
- (2) Managing their PP&E and internal use software with effective administration and control to ensure accurate financial reporting.
- (3) Establishing effective accountability at each echelon of their organization to provide optimum protection against fraud, waste, misuse, and abuse of Government PP&E and software during receipt, use, movement, maintenance, and disposal phases.

10. IMPLEMENTATION. The policy and responsibilities set forth in this Order, including procedural requirements of accounting for PP&E and internal use software, are for uniform application throughout the Department.

FOR THE SECRETARY OF TRANSPORTATION:



Jennifer Funk
Acting Deputy Chief Financial Officer

12-6-17
Date