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DEPARTMENTAL DIRECTIVE NO. 25.2.10 **1 August 2018**

GUIDELINES FOR REPORTING CAPITAL INTANGIBLE ASSETS (SOFTWARE)

1. PURPOSE: The New Jersey Department of Military & Veterans Affairs (DMAVA) is required to report intangible software assets to the Statewide Land and Building Asset Management System (LBAM) on a yearly basis at the end of each fiscal year (June 30). Under Office and Management & Budget Circular 11-18-0MB, DMAVA must enter software expenditures with a minimum cost of $100,000 in acquisitions, development, and implementation cost whether purchased or internally developed. The DMAVA Chief Information Office, (CIO), also known as the Director of Information Technology and Administration (IASD), is responsible for ensuring the capture and accurate reporting of software procurement and development, and that the information is gathered and forwarded to the Department's LBAM Coordinator. The CIO must then certify the accuracy of the information to the DMAVA Chief Financial Officer (CFO).

 2. REFERENCE: Pursuant to N.J.S.A. 52: 17B-1 et seq., The Adjutant General has established this operating policies and procedures for reporting capital intangible assets (software). This policy is a supplement to Office of Management and Budget (0MB) Circular 11-18-0MB (Capital Assets).

3.   **PROCEDURE:**

   A. The CIO must ensure that software development expenditures are forwarded to the Department's LBAM coordinator before the end of the fiscal year. The documents, along with certification of accuracy, must also be provided to the DMAVA CFO. The documents must be in Microsoft Excel format with the following columns:

   (1) Description

(2) Fiscal Year

(3) Resource Type (Employee, Consultant, Vendor, etc.)

(4) Resource Name (Developer, Consultant, Vendor name)

(5) Location (Bldg ID, Name, Division, etc.)

(6) Acquisition method

(7) State Category Detail

(8) Purchase Cost (if applicable)

(9) Acquired Date (if applicable)

(10)   Hourly Rate* (if applicable)

(11)   Hours (total hours used for development in fiscal year for resource)

(12)   Amount (rate * hours - or - cost of vendor purchase)

Calculated by dividing annual salary on 6/30 by 26 pay periods. Quotient is divided by 10 (10 days in pay check period). Quotient is divided again by 7.5 (hours in a day).

B. **INFORMATION TECHNOLOGY (IT) PROCURMENTS:** The CIO will obtain information for submission from the following sources. IASD (IT) Procurement Staff and Fiscal Division Purchase Bureau will review all purchase orders fulfilled within the fiscal year for monies paid for software, licensing, contractors, consultants, Office of Information Technology (OIT) services, and any other costs that meet the criteria in this policy and exceed the $100,000 cost threshold. IASD (IT) Procurement staff must provide this information in Microsoft Excel format with the above indicated fields to the CIO, IT Operations Manager or designee.

C. **CALCULATING COST OF SOFTWARE:** Software costs for the fiscal year shall be calculated and reported when management commits to the development/procurement   of an application and the costs are or projected to exceed $100,000.   Costs associated with meeting the price threshold are:

(1) Payments to vendors

(2) State employee payroll:
Payroll - only costs associated with programmers and their immediate supervisors must be captured and reported. Administrative costs should not be reported. Payroll

costs should be reported when these costs are anticipated to exceed $66,500 for the fiscal year. Once OMB adds fringe costs, the payroll cost will exceed the $100,000 threshold and will meet the reporting requirement.

(3) Consultant pay

(4) Office of Information Technology (OIT) services.

OIT Services - OIT annually issues Governmental Accounting Standards Board (GASB) software reports. These reports are issued in July/August and contain the OIT fiscal year costs associated with software development. DMAVA will add any associated OIT Services costs for each relevant software asset.

(5) OIT Project - Statewide applications where OIT is the project lead will have expenditures reported by OIT.

(6) Multi-year Enterprise Procurement Agreement - If a multi-year payment for a software application is negotiated, the full purchase price will be entered on the first year it was purchased. LBAM will create offset pricing for each year. For example, when an application is acquired for $100,000 and a pricing structure is negotiated for five years at $100,000 per year, the record shall indicate $500,000 for the fiscal year it was acquired in. Subsequent payments will not be needed because of the payment series set up in LBAM.   If the software was acquired, but there was not a written payment policy and it   is only intended on being purchased the next fiscal year, then the software shall not be added to asset list in that fiscal   year.

(7) Training - Training costs are not capitalized and shall not be included.

D. SOFTWARE REPORTING CATEGORIES:

(1) Internally Developed - includes 'purchased w/ minimal effort to install'

(2) Purchased Software - including licensing

(3) Software Upgrades/Enhancements

(4) Maintenance Contracts

(5) Website Development/Upgrades

(6) Enterprise Resource Planning Systems

(7) Enterprise Applications/ Agreements

(8) Software as a Solution (SaaS)/Cloud

(9) Other licenses for databases and programming suites

(10) Leased Software - Operating/Capital

(11) Internally Developed.

Minimal effort to install - GASB rules state that any purchased software that requires a minimal effort to install should be reclassified as internally developed. OMB defines "minimal effort" as any installation process that requires configuration or installation on a server. Installation on a standard personal computer should be classified as Purchased Software (B).

For initially developed software, only costs associated with the application development phase should be capitalized. Costs associated with Preliminary Project and the Post Implementation/Operation stages should be expensed as incurred. The reporting for internally developed software occurs only after the preliminary project state is complete and if:

(1) Management has authorized and committed to funding of the project

(2) It is considered probably that the project will be completed

(3) It is implemented to the intended use

(4) The cost of the application is estimated to exceed the reporting threshold

E. CAPITALIZED COSTS: Direct cost includes cost of materials and services consumed in developing or obtaining internal use software, payroll, and payroll related costs devoted directly to the project. Indirect payroll costs will be calculated by OMB using the annual "Employee Benefit" Reimbursement Rates Circular Letter. Additional examples of costs include expenditures associated with the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware and testing. Maintenance agreements are capitalized if DMAVA performs upgrades or enhancements during the reporting period.

F. NON-CAPITALIZED COSTS (*do* **not include**)

(1) All research and development costs (R&D) - R&D activities include the conceptual formulation of all alternatives, evaluation of alternatives, determination of the existence of needed technology and the final selection of alternatives.

(2) Maintenance costs including ongoing support, annual maintenance agreements and training costs. Maintenance costs are capitalized if upgrades and enhancements are included and installed during the reporting period.

(3) General and administrative overhead costs.

G. CHANGE ORDERS: Change Orders are defined as a substantial deviation from the original programming design during the development period. If a change order occurs, a new LBAM software record should be created and the expenditures should report the associated changes separately, if the price threshold is met.

H. MULTI-YEAR SOFTWARE DEVELOPMENT: Generally, LBAM software records should be closed within three years of commitment if more than 75% of the original application specifications are in production and DMAVA does not anticipate completion within one year. A new LBAM software record should be opened to report remaining development costs.

I. MODIFICATIONS TO EXISTING SOFTWARE APPLICATIONS: Modification to existing software must be entered into LBAM when the estimated cost equals or exceeds the $100,000 threshold and the modifications extend the useful life of the application.

J. PURCHASED SOFTWARE: Commercial applications that satisfy the reporting threshold must be reported. Specialization, customization, and/or configuration expenditures should be included in the acquired price and classified as internally developed software.

K. SOFTWARE UPGARDES / ENHANCEMENTS: All upgrades and enhancements that meet the cost threshold need to be reported. If the upgrade is included in the maintenance contract, then the item will be included in the maintenance contract category (D).

L. MAINTENANCE CONTRACTS:

Annual maintenance contracts are not reported UNLESS, the contract satisfies the $100,000 threshold AND OAG has upgraded or installed patches and fixes that extend the useful life of the program in the reporting period. For example, if the application is upgraded because of defect or age, then it must be reported.

M. WEBSITE DEVELOPMENT/UPGRADES: All websites and internal intranet sites must be reported if time spent by developer exceeds the threshold of $66,500.

N. ENTERPRISE APPLICATIONS /AGREEMENTS: Enterprise application software is considered be software, designed to be used BY the large masses for specific business needs. Generally, agreements are multi-year and will most likely exceed the cost threshold and need to be reported.

O. SOFTWARE AS A SOULTION (SAAS/CLOUD): SaaS is a delivery method that provides access to software and its function remotely as a web-based service. When the cost exceeds the threshold, it must be reported.

P. LEASED SOFTWARE: Executive Branch agencies are not permitted to lease software.

4. GENERAL: This Directive as well as additional Information Technology Departmental bulletins and policies can be found on the publications section of the Department website at: http://www.nj.gov/military/publications/index.html.

The proponent of this Directive is the Information and Administrative Services Division (IASD),

Users are invited to submit comments and suggested improvements directly to

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