

**CHAPTER 7. ACCOUNTING FOR GENERAL PROPERTY, PLANT,
AND EQUIPMENT (PP&E)**

7-1. Purpose. This document establishes the Department of Housing and Urban Development's (HUD or Department) Property, Plant, & Equipment (PP&E) financial management policy in accordance with the requirements outlined by the Office of Management and Budget (OMB), Federal Management Regulation (FMR), Federal Accounting Standards Advisory Board (FASAB), and National Archives and Records Administration (NARA). These policies are intended to facilitate effective financial control over HUD-owned and HUD-leased PP&E. Additionally, this guidance is intended to provide reasonable assurance that the internal control objectives of the Department are being achieved in the following categories:

- effectiveness and efficiency of operations, including the use and disposition of resources;
- reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use;
- accountability and control over all HUD PP&E; and
- compliance with applicable laws, regulations and policies.

7-2. Relevant Authoritative Guidance

Relevant Authoritative Guidance	Effective Date
OMB Circular A-136, Financial Reporting Requirements	7/30/2018 (updated annually)
Statement of Federal Financial Accounting Standards (SFFAS) Number 4, Managerial Cost Accounting Concepts and Standards for the Federal Government	7/31/1995
SFFAS Number 5, Accounting for Liabilities of the Federal Government	12/20/1996
SFFAS Number 6, Accounting for Property, Plant, and Equipment (as amended by SFFAS Numbers 14, 16, 23, 29, 32, 35, 40, and 42)	11/30/1995
SFFAS Number 10: Accounting for Internal Use Software	10/9/1998
SFFAS Number 50: Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35	8/4/2016
SFFAS Number 54: Leases - An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment (to be effective for reporting periods beginning after September 20, 2020)	4/17/2018
General Services Administration (GSA) Federal Management Regulation (FMR), Subchapter B – Personal Property	9/22/2016
National Archives and Records Administration (NARA) Records Management Guidance and Regulations, General Records Schedule (GRS)	December 2017

- 7-3. Roles & Responsibilities.** HUD is the principal Federal agency responsible for programs concerned with the Nation's housing needs, fair housing opportunities, and improvement and development of the Nation's communities. In addition to its Washington, D.C. headquarters, HUD has 65 regional and field offices with the authorization to acquire capital equipment.
- A. Office of the Chief Financial Officer (OCFO).** The Office of the Chief Financial Officer (OCFO) provides leadership in instituting financial integrity, fiscal responsibility, and accountability. The mission of the OCFO is to lead the Departmental officials towards the understanding and practice of sound financial management in program development and operations, and in the stewardship of public resources.
 - B. Office of Administration, Property Management Branch (PMB).** The Office of Administration, Property Management Branch (PMB) is responsible for tracking and inventorying all of HUD's PP&E and other accountable/sensitive assets.
 - C. Office of the Chief Procurement Officer (OCPO).** The Office of the Chief Procurement Officer (OCPO) is responsible for obtaining all contracted goods and services required by the Department efficiently and in the most cost-effective manner to enable the Department to meet its strategic objectives. OCPO provides vital logistic support to the Department's program offices and other support offices in meeting their mission needs and provides leadership throughout the Department for fundamentally sound business practices. OCPO is responsible for the oversight and managing the use of HUD's acquisition system, Procurement Request Interface System Management (PRISM).
 - D. Office of the Chief Information Officer (OCIO).** The Office of the Chief Information Officer (OCIO) enables delivery of HUD programs, services, and management processes by providing high-quality information technology solutions and services. OCIO is responsible for managing the key financial management systems to include PRISM and Oracle Federal Financials.
 - E. Department of the Treasury, Bureau of Fiscal Service, Administrative Resource Center (ARC).** The Administrative Resource Center (ARC) is a shared service solution that provides administrative and financial management support. ARC is responsible for recording depreciation, enhancement, impairment, and disposal transactions into the general ledger based on journal vouchers either prepared by ARC or the Financial Reporting Division (FRD) and approved by Fort Worth Accounting Center (FWAC) or prepared and approved by FWAC.
- 7-4. Effective Date.** This policy is effective October 1, 2018. All HUD PP&E will be subject to capitalization thresholds and useful lives contained within this policy.

7-5. Policy¹. HUD PP&E shall be reported in the balance sheet, the statement of net cost, and disclosed in the footnotes in accordance with the requirements outlined in OMB Circular A-136. The acquisition cost of general PP&E shall be recognized as an asset based upon Federal accounting standards and the capitalization thresholds established by HUD. Subsequently, that acquisition cost shall be charged to expense through depreciation. Depreciation is the systemic and rational allocation of the acquisition cost of an asset, less its salvage or residual value. The depreciation expense shall be accumulated in a contra asset account – accumulated depreciation

- A. Physical Inventories.** There must be a physical inspection of all PP&E assets (floor-to-book and book-to-floor) on a periodic basis. Documentation must be created and signed to reflect completion of physical inventories and updates to the financial records must be completed. Documentation supporting physical inventories should be stored, maintained and made readily available in accordance with National Archives and Records Administration (NARA) requirements.
- B. Segregation of Duties.** Segregation of duties precludes errors or attempts at fraud or embezzlement from going undetected. Internal controls generally require a four-way separation of the contracting, receiving, voucher certification, and disbursing functions. To the greatest extent possible, relevant duties associated with PP&E that should be assigned to different personnel include:
- contracting (obligating the Government);
 - authorizing, approving, and recording transactions;
 - issuing or receiving assets;
 - completion of physical inventories;
 - maintaining property records; and
 - disposition of assets.

7-6. General PP&E Asset Categories. HUD General PP&E consists of furniture, fixtures, equipment, and data processing software used in providing goods and services. HUD General PP&E also includes assets acquired through capital leases and leasehold improvements. As defined in SFFAS 6, all PP&E must meet the following criteria order for costs to be capitalized:

- they have estimated useful lives of two years or more;
- they are not intended for sale in the ordinary course of operations; and
- they have been acquired or constructed with the intention of being used or being available for use by the Department.

¹ In addition to this policy, PP&E Standard Operating Procedures (SOPs) will be developed in the future. As they are finalized, the updated HUD PP&E policy and all related SOPs will be posted to https://www.hud.gov/program_offices/administration/hudclips/handbooks/cfo for reference.

The following sections outline the accounting requirements for the specific types of HUD General PP&E:

A. Internal Use Software (IUS). SFFAS 10 identifies accounting requirements for software designed for internal use, which consists of:

- commercial off-the-shelf (COTS), and
- developed software.

Internal use software (IUS) must be recorded as PP&E in the Department's general ledger and financial statements if it meets the General PP&E criteria identified above.

1. Commercial-off-the-Shelf (COTS) Software: COTS software refers to software that is purchased from a vendor and is ready for use with little or no changes. For COTS software, capitalized costs should include the amounts paid to the vendor for the software. Material internal costs incurred by the Department to implement the COTS software and otherwise make it ready for use should also be capitalized.

Costs incurred after final acceptance testing that has been successfully completed should be expensed. Where the software is to be installed at multiple sites, capitalization should cease at each site after testing is complete at that site.

2. Developed Software: Developed software consists of:
 - internally developed software, and
 - contractor developed software.

Internally developed software refers to software that employees of the Department are actively developing, including new software and existing or purchased software that is being modified with or without a contractor's assistance. For internally developed software, capitalized cost should include the full cost (direct and indirect cost) incurred during the software development stage. Such cost should be limited to the cost incurred after management authorizes and commits to a computer software project and the software will be used to perform the intended function with an estimated service life of two years or more. 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. Further guidance regarding full costing are found in SFFAS 4 and SFFAS 10.

Contractor developed software refers to software that the Department is paying a contractor to design, program, install, and implement. This includes new software and the modification of existing purchased software. These costs should be capitalized. Material internal costs incurred by the Department to implement contractor-developed software and otherwise make it ready for use should also be capitalized.

PP&E Category	Capitalization Threshold	Useful Life
Internal Use Software	\$750,000	3 Years

- B. Equipment.** HUD equipment consists of appliances, office machinery, computers, servers, telephone systems, and furniture and fixtures.

PP&E Category	Capitalization Threshold	Useful Life
Equipment	\$500,000	3 Years

- C. Capital Leases.** Capital leases are leases that transfer substantially all the benefits and risks of ownership to the Department. The cost of property under a capital lease must be equal to the amount recognized as a liability for the lease at its inception.

In accordance with SFFAS 6, the criteria for a capital lease is met when a lease meets any one of the following four criteria at lease inception:

- the ownership of the asset is transferred from the lessor to the lessee by the end of the lease period;
- the lessee can buy the asset from the lessor at the end of the lease term for a below-market price;
- the period of the lease encompasses at least 75% of the useful life of the asset (and the lease is non-cancellable during that time); and
- the present value of the minimum lease payments required under the lease is at least 90% of the fair value of the asset at the inception of the lease.

PP&E Category	Capitalization Threshold	Useful Life
Capital Leases	\$500,000	Shorter of Lease Term or 3 years

- D. Leasehold Improvements.** Leasehold improvements consist of additions, alterations, remodeling, renovations or other changes to a leased property that either: (1) extend the useful life of the existing property, or (2) enlarge or improve its capacity, and are paid for (financed) by the lessee. Leasehold improvements that are placed in service at or after the beginning of the lease term should be amortized over the useful life (the normal operating life in terms of utility to the owner) of the leasehold improvement, but no longer than the expected lease term.

PP&E Category	Capitalization Threshold	Useful Life
Leasehold Improvements	\$500,000	Shorter of Lease Term or 3 Years

E. Operating Leases. In accordance with SFFAS 6, HUD does not capitalize Operating Leases. HUD will disclose, in the footnotes to its consolidated financial statements, the following regarding intragovernmental lease activities:

- a general description of significant intragovernmental leasing arrangements, including general lease terms with any applicable specific intragovernmental requirements; and
- annual lease expense in total and by major leased PP&E category.

F. Bulk Purchases. In accordance with SFFAS 6, HUD will capitalize Bulk Purchases of like items that meet the thresholds below.

PP&E Category	Capitalization Threshold	Useful Life
Bulk Purchases	Lot of Like Items in Total Costing \$1,000,000 (Individually \$50,000 or more)	3 years

7-7. Records Management. Records retention plays an integral role in the management of PP&E. Well-maintained records serve as supporting documentation for all actions affecting the lifecycle of an asset (that is, acquisition, transfer, disposition and other significant events). Asset lifecycle documentation is maintained in accordance with the NARA GRS. These schedules provide disposition authorization for records that are common to all Federal Government agencies, and cover administrative, financial, information management, and technology records. While the majority of the records described in the GRS are temporary, the GRS also includes the disposition of some records that are permanent.

Electronic asset lifecycle documentation must be uploaded into the accountable property record, where it will remain recorded with the asset record. Hard-copy asset lifecycle documentation should be maintained in accordance with NARA GRS as follows:

Asset Lifecycle Documentation Type	General Records Schedule Title
Procurement	GRS 1.1: Financial Management and Reporting Records GRS 5.4: Facility, Equipment, Vehicle, Property, and Supply Records
Disposal	GRS 1.1: Financial Management and Reporting Records GRS 5.4: Facility, Equipment, Vehicle, Property, and Supply Records
Other (including transfers, maintenance, user and warranty records)	GRS 4.2: Information Access and Protection Records GRS 5.7: Agency Accountability Records GRS 5.8: Administrative Help Desk Records

7-8. Valuation. In accordance with SFFAS 6 & 10, General PP&E shall be recorded at its historical cost (acquisition cost), with the general exceptions of transfers and excess property received. Examples of cost accounted for during the acquisition of General PP&E may include:

- amounts paid to vendors;
- transportation charges to the point of initial use;
- handling and storage costs;
- labor and other direct or indirect production costs (for assets produced or constructed);
- engineering, architectural, and other outside services for designs, plans, specifications, and surveys;
- acquisition and preparation costs of buildings and other facilities;
- an appropriate share of the cost of the equipment and facilities used in construction work;
- fixed equipment and related installation costs required for activities in a building or facility;
- direct costs of inspection, supervision, and administration of construction contracts and construction work;
- legal and recording fees and damage claims; and
- fair value of facilities and equipment donated to the government; and material amounts of interest costs paid.

7-9. Method of Depreciation. Depreciation is calculated using the straight-line method over the useful life of the asset.

7-10. Key Financial Management Systems. The table below includes the key Department financial management systems relevant to HUD PP&E.

System	System Owner	Description
Oracle Federal Financials	Department of the Treasury	Oracle Federal Financials is the financial management system of record used by the Department to record financial transactions. Specifically, the Oracle Fixed Assets Module within Oracle Federal Financials will be used to account for capitalized asset transactions.
Procurement Request Interface Management System (PRISM)	Department of Housing and Urban Development (HUD)	PRISM serves as the department's procurement system. This system interfaces with the Oracle general ledger to transmit automated updates of capital and expensed purchases to the general ledger, once goods are received.
Federal Asset Management Enterprise System (FAMES)	Department of Housing and Urban Development (HUD)	FAMES serves as the Department's property management system. This system provides detail for the capitalized equipment balance sheet line item. It does not interface with other systems and, therefore, requires manual entry for all updates. FAMES only has the functionality to account for the department's equipment; other asset categories of PP&E are accounted for through separate systems.

7-11. Acronyms.

Acronym	Title
AFR	Agency Financial Report
ARC	Administrative Resource Center
COTS	Commercial Off the Shelf
HUD	Department of Housing and Urban Development
FAMES	Federal Asset Management Enterprise System
FASAB	Federal Accounting Standards Advisory Board
FMR	Federal Management Regulations
FWAC	Fort Worth Accounting Center
GRS	General Records Schedule
GSA	General Services Administration
IUS	Internal Use Software
NARA	National Archives and Records Administration
OCFO	Office of Chief Financial Officer
OCIO	Office of the Chief Information Officer
OCPO	Office of the Chief Procurement Officer
OMB	Office of Management and Budget
PP&E	Property, Plant, & Equipment
PRISM	Procurement Request Interface Management System
PMB	Property Management Branch
SFFAS	Statements of Federal Financial Accounting Standards