



**UNDER SECRETARY OF DEFENSE**

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MAR 14 2014

COMPTROLLER

**MEMORANDUM FOR DEPUTY ASSOCIATE DIRECTOR OF NATIONAL  
INTELLIGENCE FOR FINANCIAL MANAGEMENT, OFFICE  
OF THE DIRECTOR OF NATIONAL INTELLIGENCE  
COMPTROLLER, NATIONAL SECURITY AGENCY**

**SUBJECT: Requests to Increase Capitalization Thresholds**

At a November 21, 2013, meeting, the National Security Agency (NSA) requested an increase of its capitalization threshold for internal use software, from \$5 million to \$10 million. Additionally, the Office of the Director of National Intelligence (ODNI) requested the establishment of a separate ODNI capitalization threshold.

NSA representatives based their request on a data analysis performed by the agency. They also suggested the capitalization threshold be reviewed and adjusted annually for currency. The Financial Improvement and Audit Readiness (FIAR) Directorate and the Accounting and Finance Policy (A&FP) Directorate stated a concern with the data NSA provided to advocate for increasing its threshold. Specifically, expensed information technology assets were excluded from the internal use software baseline. This resulted in a higher capitalization threshold than would have been developed if the assets had been included. A&FP and FIAR have not received additional NSA data to show otherwise.

Lacking the data to rationalize threshold changes, my office believes using multiple capitalization thresholds within major categories of property assets unnecessarily complicates property accounting, especially when the Department is trying to become auditable. Moreover, until DoD achieves full scope auditability, to include Property, Plant and Equipment, the capitalization threshold for NSA's internal use software will revert to the standard \$1 million capitalization threshold established for the rest of the Department. That is, effective April 1, 2014, the capitalization threshold for NSA and ODNI reporting entities is \$1 million for General Property, Plant and Equipment, including internal use software. The previous \$5 million capitalization threshold for NSA internal use software is rescinded. No separate ODNI thresholds are allowed, but the idea may be explored once the Department obtains a positive financial statement audit opinion.

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