



**THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER**

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**BUREAU OF ACCOUNTANCY**

**INTERNAL CONTROL AND ACCOUNTABILITY DIRECTIVES**

**DIRECTIVE #10 – CHARGES TO THE CAPITAL PROJECTS FUND:  
FREQUENTLY ASKED QUESTIONS USING COMMON SCENARIOS**

**INTRODUCTION**

Directive #10 – *Charges to the Capital Projects Fund* sets forth the guidelines for determining when Capital Funds may be used for the acquisition, construction, Betterment or Upgrade of a Capital Asset. These frequently asked questions (FAQs) use common scenarios to demonstrate the various provisions of this Directive in order to provide the correct application for determining capital eligibility. Capitalized terms are defined in [Directive #10](#).

Comptroller Internal Control and Accountability [Directives](#) are issued pursuant to the authority of the Office of the Comptroller as provided in Chapter 5, Section 93, of the [New York City Charter](#).

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## **A. BETTERMENTS AND UPGRADES TO CAPITAL ASSETS**

### ***1a. Additional Theater Betterments with Broader Benefits – Example A***

**If the restrooms and café are always open and are used for multiple purposes (for example, available for use by the public and building office employees), may the costs be combined with the theater to meet the \$50,000 minimum cost eligibility?**

Because the restrooms and café are not being improved primarily to benefit the theater, the cost may not be combined with the theater, and each must meet the minimum cost eligibility.

### ***2a. Additional Theater Betterments with Broader Benefits – Example B***

**If Betterments to the administrative offices and basement storage areas of the building are in construction for the general use of the building, may the costs be combined with the theater to meet the \$50,000 minimum cost eligibility?**

Because the administrative offices and basement storage areas of the building are not being improved primarily to benefit the theater, the cost may not be combined with the theater and each must meet the minimum cost eligibility.

### ***3a. Non-Functionally Related Library Betterments***

**Restrooms are being renovated in the basement of a library, which qualifies as a Comprehensive Betterment. May the cost to renovate the front doors of the library, costing \$25,000, be combined with the restroom renovation to meet the \$50,000 minimum cost eligibility?**

Directive #10 states that the cost of different areas of a building may be combined if those areas are functionally related to the Comprehensive Betterment, meaning that they are dependent upon each other and are necessary for the Comprehensive Betterment to function for its primary purpose. In this example, the restroom renovations are the Comprehensive Betterment; therefore, the front door renovation would have to be necessary for the restrooms to operate for its primary purpose. Since the restrooms are not dependent on the front doors to operate for their primary purpose, the cost of the front door renovation may not be combined with the restroom renovations, and must meet the minimum cost eligibility on its own.

### ***4a. Replacing Multiple Light Switches – Not Betterment or Equipment System Upgrade***

**May the cost of replacing multiple light switches be combined to meet the \$50,000 minimum cost eligibility?**

The replacement of multiple light switches is neither a Betterment nor an Equipment system Upgrade; therefore, the cost may not be combined to meet the minimum cost eligibility.

***5a. Statutory Housing Loan Program***

**If Betterments are part of a statutory housing loan program, may the cost of various Betterments in a building be combined to meet the \$50,000 minimum cost eligibility?**

For statutory housing loan or grant programs, the cost of work in an individual building may be combined to meet the minimum cost eligibility, excluding the cost of Initial Outfittings and surface treatments. The project must also meet the eligibility requirements of a Betterment.

***6a. Betterments to Combined Use Building***

**In a combined use building that houses a theater group and an art studio on the first floor, may a \$35,000 improvement to the theater's restroom be combined with a \$25,000 improvement to the studio's restroom to meet the \$50,000 minimum cost eligibility?**

Neither of these improvements meets the minimum cost eligibility, therefore the cost may not be combined and each must meet the minimum cost eligibility. The two Betterments also may not be combined to meet the minimum cost eligibility, because they are not functionally related.

***7a. Betterments to Restrooms in Combined Use Building***

**May the Betterment to the theater's restroom, costing \$35,000, be combined with the Betterment to the studio's restroom, costing \$20,000, to meet the \$50,000 minimum cost eligibility?**

Renovations to different areas of a building must be constructed primarily for the benefit of the Comprehensive Betterment to function. Because the theater group and art studio are separate functions and are not dependent on each other to function, the costs may not be combined and each must meet the minimum cost eligibility.

***8a. Combined Costs for Historic House Betterments***

**In a 286-acre park, may a \$60,000 Comprehensive Betterment, as defined in Directive #10, of a historic house, be combined with the \$10,000 repaving of a path that leads up to the historic house and a \$15,000 mesh fence that surround the historic house to meet the minimum cost eligibility?**

Because the historic house needs the path and fence to operate (for access and to protect the historic house), the cost may be combined to meet the minimum cost eligibility.

***9a. Historic House Betterments – Non-Comprehensive Betterments***

**If the Betterments to the historic house is not Comprehensive and consists only of a roof replacement may the cost to the path and fence be combined with the historic house to meet the \$50,000 minimum cost eligibility?**

At least one of the Betterments must be comprehensive to combine the costs of renovations in a building to different areas of a building, facility, or elements of Infrastructure to meet the \$50,000 minimum cost eligibility. Therefore, the cost of the road and fence may not be combined to the historic house roof replacement; each must meet the minimum cost eligibility.

***10a. Historic House Betterments – Not Physically Near and or Functionally Related***

**If the path is 100 yards away from the historic house and leads to a public pool, and the mesh fence is at the entrance to the park, which is approximately a half mile from the historic house, may the cost be combined to meet the \$50,000 minimum cost eligibility?**

Because the improvements to the path and fence are not physically near to the historic house, nor are they primarily for the benefit of the historic house, the cost may not be combined and each Betterment must meet the minimum cost eligibility.

***11a. Highway Bridge Betterments – Comprehensive Betterments and Combined Costs – Example A***

**On a highway bridge, which is 200-feet-long, has two lanes, and curbed walkways four feet on both sides, may any of the following items be combined to meet the \$50,000 minimum cost eligibility: replacing a portion of masonry block on the South Pier, approximately six feet, costing \$27,000; rehabilitating/patching spalled concrete on each of four piers/abutments, costing \$42,000; a complete overhaul of the lanes, costing \$98,000; repairing walkway curb, costing \$12,000; and scraping/patching/painting steel elements, costing \$30,000?**

If one of the Betterments qualifies as a Betterment, and other Betterments are needed for the Betterment to operate, the cost of the other Betterments may be combined with the Betterment to meet the minimum cost eligibility. For example, if the complete overhaul of the lanes on the bridge qualifies as Betterments, and the steel elements supporting the old lanes required repair for the new lanes to remain in place, the cost of this repair may be combined with the overhaul of the lanes to meet the minimum cost eligibility. If the other Betterments are not needed for the new lanes to function, each Betterment would have to meet the minimum cost eligibility.

***12a. Highway Bridge Betterments – Comprehensive Betterments and Combined Costs – Example B***

**If a Betterment that qualifies as a Betterment is only being done on a component of the bridge, may the cost of renovations to other areas of the bridge be combined to meet the \$50,000 minimum cost eligibility?**

The cost of Betterments to other areas of the bridge may only be combined if they are needed to make the Betterment functional. For example, if the lane repaving is only being done on the North end of the bridge, the cost to replace the masonry block on the South end of the bridge may not be combined to meet the minimum cost eligibility.

***13a. Site Protection and Scaffolding Brick Replacement Work***

**Pursuant to Local Law 11 mandated inspections of a municipal building, \$10,000 of façade brick replacement was deemed necessary. In order to undertake the brick replacement work \$75,000 of site protection and scaffolding is required. May the \$75,000 of site protection and scaffolding be combined with the \$10,000 of brick replacement to meet the \$50,000 minimum cost eligibility?**

No. The cost of site protection and scaffolding required to complete a Capital Project may not be combined with the cost of the brick replacement to meet the minimum cost eligibility requirements where the necessary and incidental costs – in this case the site protection and scaffolding – are disproportionate to the cost of the permanent Betterments.

***14a. Building Envelope – Betterment***

**The Building Envelope of a building is undergoing rehabilitation involving reconstruction and replacement of façade structural elements to non-contiguous areas of the envelope. May the cost of work on the separate areas be aggregated across elevations to meet the minimum cost threshold if at least 50 percent of the entire envelope surface area square footage is subject to actual replacement or reconstruction?**

Yes. The cost of work for separate areas of the envelope may be combined to meet the minimum cost threshold if at least 50 percent of the entire envelope surface area square footage is subject to actual replacement or reconstruction and such work results in a Betterment that extends the useful life of the Building Envelope by at least five years.

### ***15a. Heating Conversion – Building Betterment***

**An agency is in the process of converting to through-wall heat pumps as an energy efficient alternative to its traditional gas/oil fired centralized heating (HVAC) system. When a significant portion of a building heating system is being replaced by new, permanent through-wall heat pump units, may the permanent installations be deemed a unified building Betterment and the costs combined for purposes of the minimum cost threshold?**

Yes. Where a significant portion of an existing centralized building system is being replaced by permanently installed through-wall heat pumps, the costs of such heat pumps may be combined for purposes of the minimum cost threshold.

### ***16a. Energy Conservation Measures – Building Betterment***

**An agency is undertaking various Energy Conservation Measures in a building, including installing electric heat pump units to replace an existing gas-fired boiler system, installing a rooftop solar photovoltaic array and replacing existing windows with low thermal conductivity window framings. Since the gas-fired boiler system will be taken off-line as a result of the Energy Conservation Measures can removal of the gas-fired boiler system and restoration of the boiler room with Surface Treatments be capitalized as part of the overall building Energy Conservation Measures.**

No. Removals that are not physically necessitated by eligible capital work are not eligible since they do not result in a Betterment nor are necessary for the completion of the Betterment. Surface treatments in building areas that are not subject to an eligible Betterment are also not eligible.

## **B. EQUIPMENT & BUILDING SYSTEMS**

### ***1b. HVAC System – Initial Seasonal Testing Capitalized after Asset Placed in Service***

**An agency is in the process of constructing or Upgrading a heating or cooling system. For such building systems, the initial seasonal testing is typically included in the vendor contract as it is required to determine that the system functions as designed. Seasonal testing entails testing a system in the season in which such system will be running: a heating system would be tested during winter or as soon as temperatures drop below a certain threshold; a cooling system would be tested during summer or as soon as temperatures increase above a certain threshold. Often, at the time of substantial completion of the system work, the initial seasonal testing cannot be completed because the temperature is not suitable to perform these tests for the system in question. May such initial seasonal testing be capitalized after the asset has been placed in service?**



Yes, if the initial seasonal testing is required under the vendor contract, it may be capitalized as it is necessary to ensure the system functions as designed.

***2b. HVAC System – Capitalize Final Walkthrough***

**An agency is in the process of constructing or Upgrading a heating or cooling system. The construction contract provides for a standard warranty. May a final walkthrough for the purpose of ensuring that a warranty claim does not need to be made, and that occurs after the asset has been placed in service, but before the warranty expires, be capitalized?**

No, a walkthrough for ensuring a warranty claim does not need to be made and may not be capitalized, since it relates to the ongoing operation of the system.

***3b. HVAC System – Combined Costs***

**An Upgrade to an HVAC system for a recreational center involves installation of a new rooftop air handling unit (AHU). The Department of Buildings, per NYC building code, requires the installation of a roof railing as a condition of installing the rooftop AHU. In this case, the roof railing costs \$17,000. May the cost of the roof railing be combined with the cost of the HVAC system to meet the \$50,000 minimum cost eligibility?**

Yes, the cost of the roof railing may be combined with the cost of the HVAC system because the roof railing is a permanent physical improvement to the same building, is required for the AHU to be installed and it would not have been required or undertaken otherwise.

***4b. Boiler System – Combined Costs***

**The boiler system in a City-owned building is being converted from fuel oil to natural gas, involving the replacement of heating units, piping and boiler system controls. The extent and nature of the heating system improvements trigger a New York City Fire Department (FDNY) inspection of building fire-safety systems. As natural gas systems have different fire-safety requirements than fuel oil systems, this new system necessitates the installation of additional fire-safety system improvements such as fire-rated doors and electric exit signs at various locations and Upgrades to the fire alarm system. Each of the respective additional items mandated for this new system do not meet the minimum cost of \$50,000. May the cost of the FDNY mandated items be combined with the cost of the boiler system itself for the purpose of meeting the \$50,000 minimum cost threshold?**

Yes, the costs of the FDNY mandated items may be combined with the cost of the boiler system conversion scope where such mandated items are permanent physical improvements to the same underlying building and would not have been undertaken but for the additional regulatory requirements for the specific system installation.

(Note: the cost of exit signage, such as aluminum and reflective signs, may not be included, as such signage is not considered permanent physical improvements.)

***5b. Boiler System – Combined Costs***

**If, in #4b above, the fire safety improvements are required because recent changes to the fire code must be implemented in new buildings and in existing buildings when major work, such as this heating system conversion, is undertaken. May the cost of the FDNY mandated items be combined with the cost of the boiler system itself for the purpose of meeting the \$50,000 minimum cost eligibility?**

Yes, as with #4b above.

***6b. Boiler System – Combined Costs***

**If, in #4b above, the FDNY mandated items are required because the current fire-safety system was non-compliant with the fire code without regard to the new work. The FDNY mandated work would have been required to bring the building up to code even if the boiler conversion project were not taking place. May the cost of the FDNY mandated items be combined with the cost of the boiler system itself for the purpose of meeting the \$50,000 minimum cost eligibility?**

No, because even though such FDNY mandated work may be required for regulatory sign-off of the boiler conversion, such work was required to bring the building into compliance without regard to the boiler conversion.

***7b. Boiler System – Combined Costs***

**If, in #4b above, the FDNY mandated items are a combination of those required (a) by new fire code (#5b) or a code covering the specific improvement (#4b), and (b) to bring existing non-compliant elements into compliance, without regard to the new work (#6b), could the costs of FDNY mandated items in both (a) and (b) be combined with the cost of the boiler system for the purpose of meeting the \$50,000 minimum cost eligibility?**

No, the costs of the FDNY mandated items under (b) could not be combined with the cost of the boiler system (see #6b). The costs of the FDNY mandated items under (a) could be combined with the cost of the boiler system (see #24b and #5b).

***8b. Hallway Lighting for New Closed-Circuit Security Camera System***

**A new closed-circuit security camera (CCTV) Equipment system costing \$130,000 is being installed in a homeless shelter. Current hallway lighting is too dim for some of the cameras to function as intended. May \$3,400 to install two new hallway light fixtures be combined with the cost of the CCTV Equipment system to meet the \$50,000 minimum cost eligibility?**

No. The CCTV is an Equipment system. Per Directive 10, Equipment systems are composed of a group of related elements that are mutually dependent upon each other and connected physically or through a wireless network. The hallway lights are neither physically nor wirelessly connected to the CCTV Equipment system. Furthermore, the CCTV Equipment system and the hallway lights are not mutually dependent upon each other. Therefore, as the hallway lights are elements of building lighting system and not part of the CCTV Equipment system, the installation of new hallway lights cannot be combined with the cost of the CCTV Equipment system for the purpose of meeting the \$50,000 minimum cost eligibility.

***9b. Standalone Air Conditioner for New Closed-Circuit Security Camera System***

**In question #8b, the servers for the CCTV Equipment system are being installed in an existing dedicated IT room at the homeless shelter. To ensure optimal functioning of the servers, the agency will be installing a standalone air conditioner unit in the server room. The air conditioner will not be connected to the servers or any element of the CCTV Equipment system. May \$12,500 for the standalone air conditioner unit be combined with the cost of the CCTV Equipment system to meet the \$50,000 minimum cost eligibility?**

No. If the air conditioner unit is not physically or wirelessly connected to any element of the CCTV Equipment system and the air conditioner and the CCTV Equipment system are not mutually dependent upon each other, the air conditioner unit is not an element of the CCTV Equipment system and must be treated as a standalone item of Equipment. Directive #10 prohibits the capitalization of standalone air conditioners except when part of Initial Outfitting.

***10b. Capitalize Components of Wastewater Treatment System***

**At a wastewater treatment plant, multiple major components of the wastewater treatment system have reached the end of their useful life. For the wastewater treatment system to function, such components must be removed and new components installed. May the replacement of the components be capitalized as a Betterment if, in the aggregate, the total cost of all of the new components meets the \$50,000 minimum cost threshold?**

Yes, they can be capitalized as a Betterment to the wastewater treatment plant system, if all of the components relate to the same stage of the wastewater treatment system and meet the other requirements of Directive #10.

***11b Cost of IV Pumps Aggregated into Electronic Health Record (EHR) System***

**Over time, a hospital intends to wirelessly network its medical Equipment, functions and electronic health record (EHR) system to create an Integrated medical delivery “system.” The implementation will be phased. During the technological phase-in, all Equipment will be capable of either (1) functioning**

**independently (where all orders and information are controlled and monitored at each individual Equipment console) or (2) being networked to the EHR enabling such Equipment to send and receive data. In this instance, a hospital is purchasing 120 IV pumps, each costing between \$5,000 and \$7,000, for a total cost between \$600,000 and \$840,000. The IV pumps can function independently, but the hospital intends to wirelessly network the IV pumps to the EHR. This wireless communication will (1) tag the patient to a specific IV pump, thereby accessing patient record and physician ordered medication dosing, (2) transmit usage data to the pharmacy enabling medication level monitoring and resupply, (3) control dosing at the IV pump, and (4) enable the maintenance of all data in the patient’s medical record. May the cost of these IV pumps be aggregated and treated as an Upgrade to the EHR “system”?**

Yes, however, all components of the integrated medical delivery system must be part of a single approved Capital Project in the City’s current capital plan. In addition, all components must have a sufficient extended useful life of at least five years at the time the system is expected to be fully functional.

***12b. iPads and Reinforced Tablets***

**The building department wants to Upgrade its building inspection system and would like to purchase iPads and reinforced tablets for use by its inspectors in the field. Are multiple hand-held devices Upgrades to an IT system if networked and costing at least the \$50,000 minimum cost for eligibility?**

Yes. Directive #10 allows for the capitalization of tablets and similar products. However, the purchasing agency must demonstrate that an inventory tracking security system is in place to adequately monitor, at a minimum, the usage, distribution/ownership, maintenance of devices for a minimum of three years with virtually no loss or damage of Equipment; ii) the agency completes and submits an annual certification with the Comptroller’s Office Bureau of Accountancy that outlines, at a minimum: name of existing inventory tracking system, total number of devices purchased, fiscal year they were placed into service, types of devices, location (whether office, fieldwork site, employees home), if device is still in use, percentage still in use, replacement devices, and devices being serviced, as described in Section 7.2 (10) of Directive #10.

**C. BASELINE ELIGIBILITY REQUIREMENTS**

***1c. Combined Costs for Construction Crane Parts***

**May the replacement of different parts of a construction crane, costing \$40,000 and needed for the crane to operate, be combined to meet the \$50,000 minimum cost eligibility for an Upgrade if the replacement will allow such underlying Equipment to keep operating for five years?**

Yes. The cost of the parts may be combined to meet the minimum cost eligibility, because the replacement of the parts will extend the life of the crane for at least five years, which meets the requirements of an Upgrade pursuant to Directive #10.

***2c. Combined Costs for Removable Vehicle Attachments***

**The parks department is purchasing multi-purpose parks maintenance pick-up trucks, the specifications of which include various additional attachments, such as snow-plows (for seasonal snow removal) and trailers (for occasional additional hauling capacity). May the cost of the removable attachments be combined with the base vehicle cost for purposes of meeting the \$50,000 minimum cost eligibility?**

No, removable items may not be included in base cost of the vehicle; only permanently attached elements, for a vehicle which was assembled to specifications with such attachments and delivered as such, may be treated as part of the vehicle and included for purposes of minimum cost eligibility.

***3c. End-User-Training***

**An agency is in the process of implementing software with which none of the end-users have ever worked; users cannot use the system until at least some of them receive instructions. Would those instructions qualify as a capital cost?**

No, as per Directive #10, this is a clear example of end-user-training and, as such, could not be capitalized.

***4c. Pre-Acceptance Demonstration – Customized Equipment***

**A vendor is nearing completion of the development of a piece of customized Equipment for an agency, and will soon demonstrate that the Equipment functions as it should during the final acceptance review/inspection. Which agency staff could participate in the demonstration, without making it ineligible for capitalization?**

The personnel involved in the pre-acceptance demonstration, may include one or more relevant vendor representatives and the key agency staff with both the responsibility for acceptance of the customized Equipment and sufficient knowledge of the specifications to determine whether such Equipment functions as designed. Typically, such staff would be limited to the project manager(s) and/or engineer(s) who oversaw design and development of all or part of the customized Equipment, and the system supervisor(s).

**5c. Pre-Acceptance Demonstration – Customized System**

**If a vendor is nearing completion of the development of a customized system for an agency, and will soon demonstrate that the system functions as it should during the final acceptance review/inspection. Which agency staff could participate in the demonstration, without making it ineligible for capitalization?**

The personnel involved in the pre-acceptance demonstration, may include one or more relevant vendor representatives and the key agency staff with both the responsibility for acceptance of the customized system and sufficient knowledge of the specifications to determine whether such Equipment functions as designed. Typically, such staff would be limited to the project manager(s) and/or engineer(s) who oversaw design and development of all or part of the customized system, and the system supervisor(s)

**6c. Training at No Cost**

**What if a vendor includes training as part of the contract at no cost?\***

The value of the training within the contract would not be eligible for Capital Funding; the vendor or the agency must quantify the relative value of training and allocate the total contract cost appropriately. The allocated amount must be expense funded and must be based on the hours and hourly rates of the consultant that is performing the service.

**7c. Standalone Pollution Remediation**

**As part of a Superfund site clean-up, the EPA has ordered the City to dredge a canal to a certain depth and dispose of the dredged polluted material. The dredging will cost at least \$1,500,000 and will create a usable waterway. Would the cost of dredging and disposal, in the process of creating such a usable waterway, be capitalizable?**

No, per Directive #10, standalone pollution remediation is not eligible. However, if the dredging project was not mandated, but was undertaken for the purpose of opening the port for use by larger vessels, the costs for disposing of removed matter would be capital eligible as an incidental cost of that project.

**8c. Swing Space**

**The reconstruction of 3 floors of City Agency space necessitates the relocation of the City Agency offices to a space leased for the duration of the reconstruction. The leased space requires renovation and outfitting. In addition to the lease costs**

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\* To mitigate the risk that a vendor may reduce the cost of non-capital components of a contract by increasing the price of its capital components, special attention must be paid to all components for which a discount is offered, or for which the vendor states as being “free”.

**for the construction term, may the costs of renovation and outfitting of such leased space be capitalized as eligible Swing Space?**

Yes, to the extent the leased space, renovation and outfitting provides for only the number of City Agency employees relocated by the reconstruction project and does not exceed the capacity of the space subject to reconstruction as it existed prior to the reconstruction project, the costs for such may be capitalized as part of the Capital Project.

***9c. Surface Treatments – Standalone***

**A Betterment of a community facility involves a \$72,000 lighting system Betterment and removal of old vinyl flooring tiles with the installation of \$60,000 of new composite flooring on top of the sub-floor where old vinyl flooring has been removed throughout the facility. The lighting Betterment will not physically affect the flooring. Can the flooring replacement be considered an eligible Betterment to the community center?**

No. While the lighting system is a capially eligible Betterment, the costs of areas only receiving Surface Treatments (such as composite flooring with no subflooring) are ineligible and cannot be combined with other capital work for the purpose of meeting Baseline Eligibility Criteria.

***10c. Surface Treatments - Necessary and Incidental***

**An agency is undertaking a major \$180,000 building electrical system Betterment which involves necessary wall and floor penetrations in order to complete the electrical Betterment. Surface treatments, including \$8,000 of wall painting and \$15,000 of new composite flooring are required to restore the construction area to its previous condition. Can the costs of such Surface Treatments be capitalized in connection with the building electrical Betterment?**

Yes. The costs of Surface Treatments required to restore a work area to its previous condition due to damage or disturbance incurred by an eligible Capital Project (at the same specific location) can be included with the cost of eligible work. However, the costs of Surface Treatments themselves cannot be used to reach the minimum cost threshold if the underlying Capital Project does not meet such threshold.

**D. INITIAL OUTFITTING**

***1d. Removable Vehicle Attachments as Initial Outfitting***

**If the multi-purpose parks maintenance pick-up trucks, in question #2c, met the \$50,000 minimum cost threshold without the attachments, may the cost of the removable attachments be treated as Initial Outfitting of the multi-purpose vehicle?**

Yes, Initial Outfitting is the provision of items necessary for the vehicle to function for its intended purposes at any time. Removable items that provide required

functionality, such as snow plows for snow removal which is an annual seasonal function, may be eligible for capitalization as Initial Outfitting.

## **E. COMPUTER HARDWARE, SOFTWARE, NETWORKS, AND SYSTEMS**

### ***1e. Vendor/User Final Acceptance Review/Inspection for Off-the-Shelf Software***

**An agency is in the process of implementing off-the-shelf software. Is this eligible for vendor/user final acceptance review/inspection as a capitalized expense?**

No. As per Directive #10, although a vendor/user final acceptance review/inspection is an allowable capital expense for customized software and systems, the need for any significant vendor/user “demonstration” would only be expected to be necessary for such customized systems; it is not anticipated that off-the-shelf systems would require such demonstration phases.

### ***2e. Vendor/User Final Acceptance Review/Inspection for Customized Software***

**If the off-the-shelf software required significant custom configuration by a vendor in order to meet agency specifications (such as to interface with the City’s other systems), would the vendor/user final acceptance review of the configuration be eligible as a capitalized expense?**

Yes, a vendor/user final acceptance review of the configuration is an allowable capital expense.

### ***3e. Extended Maintenance and Support Line Items at No Cost***

**An agency is in the process of procuring Equipment associated with a network Upgrade that meets baseline capital eligibility standards. The agency has secured an Equipment list with a number of extended maintenance and support line items at no cost<sup>†</sup>. How should such no cost line items be treated?**

If the vendor always provides extended maintenance and support to all its customers at no cost, the agency must secure the vendor’s certification by a vendor representative authorized to make such statements.

### ***4e. Extended Maintenance and Support Line Items at No Cost, Without Vendor Certification***

**If, in the question above, the agency is unable to provide a vendor certification, would the answer be different?**

Yes, the value of the extended maintenance and support must be quantified, removed from the capital request and allocated to expense. The basis for such calculation of such value must be provided.

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<sup>†</sup> To mitigate the risk that a vendor may reduce the cost of non-capital components of a contract by increasing the price of its capital components, special attention must be paid to all components for which a discount is offered, or for which the vendor states as being “free”.



**5e. Vendor Certification for Capitally Ineligible Items**

**What if, as part of the network, the vendor has provided an Equipment list, which includes a number of items that are capitally ineligible (such as one-year licenses, spare Equipment, etc.) at no cost? Would the Agency need to obtain a vendor certification for these items?**

Yes, the agency would still need to acquire a certification from the vendor stating that the line items in question are always provided at no cost, to all of the vendor's customers. Such certification must be provided by a vendor representative who is authorized to make such statements.

**6e. Vendor Certification for Capitally Eligible Items**

**What if, as part of the network, the vendor has provided an Equipment list which includes a number of items that would typically be eligible for capital funding (such as an additional memory for expanded capacity) at no cost? Would the agency need to acquire a vendor certification for these items?**

No, the agency would not need to acquire a certification from the vendor as long as the particular items will be in continuous use for a minimum of at least five years after deployment and will not be utilized as spare Equipment.

**7e. Extended Maintenance and Support Line Items at Discount**

**What if, as part of the network, the vendor has provided a discount on the maintenance and support line items included in the request?**

In this case, the agency would need to obtain a certification from the vendor stating that the same discount is always provided to all similarly situated customers (e.g. other government entities, nonprofits, etc.). If the vendor is not able to secure this certification, the agency would be required to take an offset on the capital portion of the request.

**8e. Calculating Offset without Certification**

**If, in the question above, the vendor certification could not be provided, how would an agency calculate the offset needed? For example, if the agency submitted a capital request in the amount of \$140,000 for network servers. This request has an additional expense implication of \$7,000 for maintenance and support, for a total project cost of \$147,000. The maintenance and support has a list price of \$10,000, but the Agency is receiving a 30 percent discount and getting it for only \$7,000. What are the capital and expense costs the Agency should expect to incur?**

The Agency is required to offset (subtract) the discounted maintenance and support amount of \$3,000 from the capital request, thereby decreasing the approved capital cost by \$3,000 to \$137,000 and increasing the expense cost to \$10,000.

***9e. Filing for Asset Impairment and Requesting Additional Capital Funding***

**If the Agency’s IT system is expected to be technically obsolete in December 2019 (which is 26 months from the current date) and therefore requires remediation to address the decline in service utility of the Capital Asset, when would the Agency be able to file for an asset impairment and request additional capital funding?**

The Agency will be allowed to file for an asset impairment and request additional capital funding based on their anticipated deployment timeline for this IT system. The anticipated deployment timeline must be based on past experience with similar projects. If the Agency anticipates that it will take five (5) months to procure and another six (6) months to implement based on its experience with the original deployment, the Agency would be able to claim an asset impairment in January 2019 (which is 11 months before the anticipated technical obsolescence date for the system, and 15 months from the current date).

***10e. Tablets and Laptops Purchased with Expense Funds***

**Can an agency, which has previously purchased tablets and laptops using its expense funds, replace all existing tablets and laptops as an Upgrade to its existing system?**

No. Capitally funded Upgrades, under Section 4.0 of Directive #10, are only permissible if the information technology system, which will be Upgraded, was procured using Capital funds initially. In this instance, the agency would have to apply for Capital funding under Section 7.2 (10).

***11e. Laptops Purchased with Capital Funds***

**Can an agency, which has previously purchased laptops using Capital funds under the five-year provision, replace all existing laptops after reaching the new three-year requirement, but prior to them reaching five years?**

No. All capital Information Technology (IT) Computer Hardware, Software, and Networks previously purchased under the five-year provision, hence financed with five-year bonds, must meet the originally intended useful life of five years before they can be replaced.

***12e. Information Technology (IT) Purchased with Capital Funds***

**Can an agency, which has previously acquired an IT system using Capital Funds under the five-year provision, Upgrade its existing IT system by increasing capacity, under the new three-year requirement, but prior to the system reaching five years?**

Yes. An increase in capacity that does not jeopardize the system components that were previously purchased under the five-year provision can be Upgraded to increase its capacity by introducing additional components under the amended Section 7.0 of Directive #10. If the Upgrade were to jeopardize existing system components, prior to them reaching their useful life, then the scenario above (11e) applies.

***13e. IT Components Purchased with Capital Funds***

**Can an agency, which has previously purchased IT components (Computer Hardware, Software, and Networks) using Capital Funds under the five-year provision, replace all or part of the existing IT components if they are deemed impaired, due to unforeseen obsolescence, after reaching the new three-year requirement, but prior to them reaching five years?**

Yes. IT Capital Assets, which are deemed impaired, due to unforeseen obsolescence, can be replaced regardless of when the impairment occurred. Useful life lapsed, nor useful life remaining, on the asset are considered when dealing with unforeseen obsolescence.

***14e. Subscription-Based Information Technology Arrangements (SBITA) - Development Stage***

**Can the Development Stage of a SBITA Project be Counted Towards its Useful Life?**

No. The useful life of a SBITA begins at deployment. Example, a project that has a two-year development stage followed by a one-year operating phase, would only apply the one year of its operating phase towards its useful life count.

***15e. Subscription-Based Information Technology Arrangements - Contract Extensions***

**Can unexercised contract extensions, which allow for the continued operation of the SBITA, be counted towards its useful life? Example, a project that has an initial contractual agreement of a total of three years, for which two years is the development stage, followed by a one-year operating phase, and offers a renewal option which would extend the operating life by two years. Would the two-year renewal count towards its useful life?**

Yes. An agency can apply the first renewal option towards the useful life of the SBITA. An agency would have to meet all of the following conditions, as demonstrated by the SBITA agreement and supporting documentation: (i) such option may be unilaterally exercised by the City agency; (ii) the City agency that is a party to the SBITA agreement is authorized, without further approvals, to exercise such option; and (iii) the Agency Head or a Deputy Agency Head of such City agency has certified in writing that it intends unconditionally to exercise such option.

***16e. Subscription-Based Information Technology Arrangements - Useful Life***

**A project that has an initial contractual agreement of a total of three years, two-year development stage followed by a one-year operating phase, but also has three, one-year renewal options which, if all options were exercised, would extend the operating life by a total of three years. Would the renewal options count towards its useful life?**

No. Only the first renewal option can count towards the useful life of the SBITA. In this example the SBITA, would only have a useful life of two years.