

STATE OF COLORADO FY 2008-09 BUDGET REQUEST CYCLE: Education

Schedule 13											
1331 Emergency Change Request for FY 08-09 Budget Request Cycle											
Decision Item FY 08-09 <input type="checkbox"/>		Base Reduction Item FY 08-09 <input type="checkbox"/>		Supplemental FY 07-08 <input checked="" type="checkbox"/>		Budget Request Amendment FY 08-09 <input type="checkbox"/>					
Request Title:		Asset Maintenance "1331" Request									
Department:		Education			Dept. Approval by: <i>William R. ...</i>				Date: <i>6-9-08</i>		
Priority Number:		N/A			OSPB Approval: <i>For M...</i>				Date: <i>6-9-08</i>		
		1	2	3	4	5	6	7	8	9	10
		Prior-Year		"1331"	Total		Decision/			Total	Change
		Actual	Appropriation	Supplemental	Revised	Base	Base	November 1	Budget	Revised	from Base
	Fund	FY 06-07	FY 07-08	Request	Request	Request	Reduction	Request	Amendment	Request	(Column 5)
		FY 06-07	FY 07-08	FY 07-08	FY 07-08	FY 08-09	FY 08-09	FY 08-09	FY 08-09	FY 08-09	FY 09-10
Total of All Line Items	Total	589,106	590,697	166,116	756,813	590,697	0	590,697	0	590,697	0
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	589,106	590,697	0	590,697	590,697	0	590,697	0	590,697	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	166,116	166,116	0	0	0	0	0	0
	CFE	0	0	0	0	0	0	0	0	0	0
	FF	0	0	0	0	0	0	0	0	0	0
(1) Management and Administration											
Asset Maintenance											
	Total	90,606	90,697	216,116	306,813	90,697	0	90,697	0	90,697	0
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	90,606	90,697	50,000	140,697	90,697	0	90,697	0	90,697	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	166,116	166,116	0	0	0	0	0	0
	CFE	0	0	0	0	0	0	0	0	0	0
	FF	0	0	0	0	0	0	0	0	0	0
(2) Assistance to Public Schools (C) Grant Programs and Other Distributions											
School Breakfast Program											
	Total	498,500	500,000	(50,000)	450,000	500,000	0	500,000	0	500,000	0
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	498,500	500,000	(50,000)	450,000	500,000	0	500,000	0	500,000	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	0	0	0	0	0	0	0	0	0	0
	FF	0	0	0	0	0	0	0	0	0	0
Letternote revised text: The \$166,116 in cash funds shall be from audit recoveries deposited into the State Public School Fund. Cash Fund name/number, Federal Fund Grant name: State Public School Fund (113)											
IT Request: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No											
Request Affects Other Departments: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No											
If Yes, List Other Departments Here:											

1331 EMERGENCY CHANGE REQUEST for FY 2008-09 BUDGET REQUEST CYCLE

Department:	Education
Priority Number:	N/A
Change Request Title:	Asset Maintenance "1331" Request

SELECT ONE (click on box):

- Decision Item FY 2009-10
- Base Reduction Item FY 2009-10
- Supplemental Request FY 2007-08
- Budget Request Amendment FY 2009-10

SELECT ONE (click on box):

Supplemental or Budget Request Amendment Criterion:

- Not a Supplemental or Budget Request Amendment
- An emergency
- A technical error which has a substantial effect on the operation of the program
- New data resulting in substantial changes in funding needs
- Unforeseen contingency such as a significant workload change

Short Summary of Request:

As a result of a recent review (May 2008) of fiscal practices at the Department of Education (CDE) it was discovered that some asset maintenance costs related to two specific computer systems were, in the opinion of CDE staff, being unsuitably billed to federal funds. The Department is requesting an adjustment to the CDE asset maintenance line of \$216,116 in FY 2007-08 to avoid an over expenditure and appropriately bill the asset maintenance charges to state funds.

Background and Appropriation History:

This asset maintenance appropriation provides funding for the Department to implement an asset management plan to achieve and maintain a standard information technology environment. The appropriation for FY 2007-08 is \$90,697, which is equal to the Department's actual expenditures in FY 2001-02. This appropriation has remained the same, \$90,697, since FY 2003-04.

General Description of Request:

In April 2008 the Department of Education released a report entitled “An examination of State and Federal Resources Allocated to the Colorado Department of Education.” This report completed by the Southwest Comprehensive Center at WestEd provided the Department a number of findings and recommendations. One of the findings was CDE relies heavily on federal funding to support operations – far above the level of other states. This finding prompted CDE fiscal staff to review “operational” expenditures that rely on federal funding. In the course of this review it was discovered that over \$260K in asset maintenance costs was being allocated to all programs, including federal funds, at the Department of Education.

Allocating costs to programs, including federal funds, is an appropriate action assuming per the federal requirements outlined in OMB Circular A-87, a clear and distinct benefit to that program can be assigned. In short this means if a federal program benefits from the good/service and the benefit can be quantified in a specific cost of the good/service; the program may be “direct” charged for that good/service. An example of this is if a federal program purchased a software package to carry out the purpose of the specific federal program and only program staff working on the federal program used the software, the cost of the software may be “directly” billed to the federal grant.

In cases where no “direct” benefit can be quantified, the costs of the good or service may not be “directly” billed to a federal grant. Costs that generally benefit all areas of the Department, but the benefits are very difficult or impossible to quantify for each program are called “indirect” costs. A good example of this at CDE is the CDE accounting unit. The accounting unit services all of CDE including state funded, cash funded and federally funded programs. The CDE accounting unit does not “direct” charge each CDE program for accounting services, as quantifying the appropriate amount to charge each program would be impossible. Instead the costs of the CDE accounting unit are included as part of the “indirect cost” plan submitted to the federal government.

The federal government allows CDE to submit a cost plan each year that allows CDE to charge an “indirect cost rate” on all federal expenditures in a fiscal year. One of the intents of the “indirect cost rate” is to allow the Department to recoup costs from federal funds for operational components of the department where individual program benefits would be difficult to quantify. CDE’s “indirect cost rate” for FY 2007-08 is 5.8%. As indicated in the report completed by WestEd this is one of the lowest rates in the nation.

In the case of the asset maintenance costs identified by CDE staff, the costs related to the two specific servers are classic “indirect costs” that should not be directly billed to specific programs. The costs represent server maintenance and software license renewals for hardware and software that provide a “general” benefit to a significant number of CDE programs and allocating a “direct” charge to specific programs is not appropriate in the mind of CDE staff. The result is the costs must be covered with state funds and included in the indirect cost plan going forward. The department is requesting \$216,116 in funding for the current asset maintenance line to avoid a current year over expenditure.

Detail of Maintenance Costs

System	Type of Service	Service Provider	Amount
HP3000	Maintenance	HP3000 Maintenance Split	\$10,450
HP3000	Maintenance	Software Spectrum Inc.	\$5,157
HP3000	Maintenance	Raosoft, Inc.	\$1,074
HP3000	Maintenance	Adager	\$1,365
HP3000	Maintenance	DISC	\$2,750
HP3000	Maintenance	Robelle Solutions	\$2,600
HP3000	Maintenance	Activant Solutions Inc.	\$19,640
HP3000	Maintenance	ROC Software, LP	\$1,390
HP3000	Maintenance	VESOFT, Inc.	\$1,910
Total Maintenance Cost for HP3000:			<u>\$46,336</u>

System	Type of Service	Service Provider	Amount
HP9000	Maintenance	VeriSign, Inc.	\$3,972

HP9000	Maintenance	March Hare Software LLC	\$3,620
HP9000	Maintenance	Hyperion	\$11,329
HP9000	Maintenance	Quest Software	\$4,254
HP9000	Maintenance	HP	\$73,234
HP9000	Maintenance	Dell Marketing L.P.	\$5,000
HP9000	Maintenance	Software Spectrum Inc.	\$116,445
Total Maintenance Cost for HP9000:			<u>\$217,854</u>
Total Maintenance Cost :			<u>\$264,190</u>

The tables above represent two distinct system processing environments:

The HP3000 environment supports remaining critical CDE legacy systems including State Equal and State Equal auditors which support the yearly distribution of monthly state share payments, totaling \$3.4 billion this past year, to Colorado’s 180 public school districts; the Licensure system which supports the validation and issuance of Colorado teacher licenses and teaching endorsements; district transportation audits and reimbursements; and other smaller systems including monthly budget reports, grants payment tracking, and a Non-public schools tracking system. The utilities represented in the table are either generic for all applications or support aspects of data relevant to many other systems, for example, Licensure data supports teacher information used across multiple CDE units and systems including Special ED, HR, Student October, Highly Qualified Teachers (HQT), and Adequate Yearly Progress (AYP).

The HP9000 environment supports more modern web-based data collection and storage methods currently in use at CDE. These include:

Automated Data Exchange (ADE) systems that facilitate the majority of data collected from districts to support state and federal legislated data collection initiatives including Student October which supports monthly state share distribution as noted above; Human

Resources, district financials (Finance); Special Education December Count, HR, and EOY collections; Student Biographical Data collections to verify student level CSAP test data; and other ADE collections including Math Science Project, CSAP Online, Student Discipline and Incident, Miscellaneous March, and the Student Identifier system (RITS).

Java Systems using newer web development technologies to support real-time transactional systems such as Child Nutrition, Adult Ed, CDE Data Dictionary, School Accountability Website, and the Licensure Check system; and data collections including Read to Achiever, Summer School, Military February Count, Special Ed Federal Applications and EOY, Direct Certification, and Adequate Yearly Progress (AYP).

Warehouse internal and web-based systems including COGNOS Business Intelligence (BI) for interactive reporting of data warehouse information, School Accountability Report processing, Adequate Yearly Progress (AYP) processing, Longitudinal Data Analysis, and Information for warehouse ETL processing.

The HP9000 items listed in the table above constitute infrastructure elements needed to support the web-based collections and warehouse processes noted above including Oracle databases and application servers, Dell web servers, HP database servers and mass data storage servers (SAN); programming languages including, Java, Oracle Discoverer, SQR and PL/SQL; database access and maintenance utilities; and web security encryption.

Consequences if Not Funded:

If this request is not funded the Department will overspend the asset maintenance line in FY 2007-08.

Calculations for Request:

Summary of Request FY 2007-08	Total Funds	General Fund	Cash Funds	Cash Funds Exempt	Federal Funds	FTE
Total Request [Items below total to this]	\$166,116	\$0	166,116	\$0	\$0	0.0
(1) Management and Administration - Asset Maintenance	216,116	50,000	166,116	\$0	\$0	0.0
(2) Assistance to Public Schools (C) Grant Programs and Other Distributions – School Breakfast Program	(50,000)	(50,000)	\$0	\$0	\$0	0.0

Notes on Funding:

- \$166,116 is requested to be from recovered overpayments (audit recoveries) to school districts or the State Charter School Institute from the State Public School Fund.
- It should be noted that this requested action will result in federal grants located at CDE not being charged for expenses related to the asset maintenance activity. This will allow CDE to use these federal funds for other grant related purposes. Please note this request does not impact the amount of the total grant award, it only allows CDE to repurpose those federal funds that would have paid for the asset maintenance costs to other grant related activities.

Cash Funds Projections: None.

Assumptions for Calculations:

Breakdown of Need	Amount	Formula
Total Amount of Asset Maintenance Costs	\$ 264,190	(a)
Funds in the Current Asset maintenance Line Used to Address this Need	\$ 48,074	(b)
Total Amount of Additional Funding Needed in the FY 2007-08 Asset Maintenance Line	\$ 216,116	(c)=(a)-(b)
Estimated Amount of General Fund Available From the School Breakfast Program (Projected Reversion)	\$ 50,000	(d)
Amount Needed to be Covered by Audit Recoveries	\$ 166,116	(e)=(c)-(d)

Impact on Other Government Agencies: None.

Cost Benefit Analysis:

Outlined below is a basic cost/benefit analysis for this request.

Cost: The cost of this request is the \$50,000 in general fund anticipated to be reverted from the School Breakfast Program and the request to use \$166,116 in audit recoveries. The total cost would be \$216,116.

Benefit: This request has a number of benefits;

#1) By funding this request the department is able to include more costs in the cost allocation plan, therefore building the indirect cost base in the future. By building the base the Department should see an increase in the indirect cost rate in future years. A higher indirect cost rate allows the Department to collect more in indirect revenues from federal grants which will assist the Department in funding operational components of its budget in future years.

#2) This request is more consistent with the expectation of how the federal government requires federal funds to be used. If funded this request benefits the state by eliminating the possibility of costs be declared “unallowable” by the federal government. “Unallowable” costs are required to be paid back to the federal government and this would require the Department to seek additional general fund spending authority to pay this “unallowable” cost back. The benefit outlined here is at least a 1:1 payback as the cost, \$216,116 would equal the amount not possibly deemed “unallowable” of \$216,116.

Implementation Schedule:

Task	Month/Year
Request “1331” Supplemental in June 2008	June 2008

Statutory and Federal Authority:

OMB CIRCULAR A-87 (Federal Guidance)

SUBJECT: Cost Principles for State, Local, and Indian Tribal Governments

E. Direct Costs

1. General. Direct costs are those that can be identified specifically with a particular final cost objective.

2. Application. Typical direct costs chargeable to Federal awards are:

- a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.
- b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.
- c. Equipment and other approved capital expenditures.
- d. Travel expenses incurred specifically to carry out the award.

3. Minor items. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

F. Indirect Costs

1. General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Performance Measures: None.