

ALERT! ALERT! ALERT!

General Support Services
Division of Finance and Procurement
Office of the State Controller
1525 Sherman St., Ste 250
Denver CO 80203
Phone: 303-866-3281
Fax: 303-866-4233

ALERT #141

TO: Department Controllers, Fiscal Officers and Other Interested Parties

FROM: Arthur L. Barnhart *cab*
State Controller

DATE: October 31, 2001

SUBJECT: **Acting Deputy State Controller**
Fiscal Rule Hearing
Division of Wildlife Enterprise Status
State Fiscal Rule Training
Conversion of Use Allowance to Depreciation for Federal Allowable
Cost Purposes
Temporary Agency Assignments for FAST

Acting Deputy Controller

I am pleased to announce that Linda Bradley, who has been a member of the Field Accounting Services Team (FAST) for the past four years, has agreed to serve as Deputy State Controller in an acting capacity until we are able to permanently fill the position through an open competitive selection process. Because of personal services budget problems in this division, I do not expect that to happen before January 2002 at the earliest. Her current assignments will be assumed by other members of the FAST. The FAST members, along with the other unit managers in the State Controller's Office, will report to her during this time. Linda will relocate to the office the Dennis Wolfard occupied here in Suite 250 and she will be using that office telephone number as well. She may be reached at extension 3895.

Fiscal Rule Hearing

The State Controller is authorized under Title 24 Article 30 CRS to promulgate and maintain fiscal rules for the State of Colorado. The following is a summary of the proposed changes to the State Fiscal Rules adopted on October 11, 2001:

- Rule 2-2 **Commitment Vouchers**
Increases the minimum amount for commitment vouchers from \$3,000 to \$5,000. Allows vendor agreements under specific conditions. Allows changes to standard purchase order terms and conditions under specific conditions. Specifies Terms and Conditions for purchase orders in Appendix A.
- Rule 2-8 **Miscellaneous Compensation and Other Benefits (Perquisites)**
Adds statutory reference for perquisites and changes the definition.
The proposed changes to this rule were withdrawn.
- Rule 2-10 **Encumbering of Commitments**
Removes the requirement to encumber commitments between state agencies that will be charged to an appropriation created for those obligations (e.g. legal fees, capitol leases).

- Rule 3-1 Contracts
 Modifies the current Special Provisions and creates an alternative set of Special Provisions to be used with inter-governmental contracts.
 Changes the policy regarding advance payments.
 Increases the threshold for mandatory use of contracts for personal services from \$25,000 to \$50,000.
 Requires formal contracts for capital construction purchases, not exclusively for purchase of fixed equipment, in excess of \$50,000 except as otherwise provided in Fiscal Rule 4-1.
 Requires interagency contract breach and remedies provisions be consistent with Rule 2-6, naming State Controller as final arbitrator of all interagency payment disputes.
- Rule 4-1 Capital Construction
 Permits the use of purchase orders when expending funds in excess of \$50,000 appropriated for emergency maintenance projects if approved by State Buildings Director.
 Requires State Buildings Director or a delegate to record written approval on the face of purchase orders for capital construction not exceeding \$50,000.
- Rule 5-1 Travel
 Changes the reference to the source of funds for Boards and Commissions from, "State tax dollars" to "public funds" as the term is more accurate.
 Modifies the meal per diems (Appendices A - C) to adopt Federal changes.
 Changes the allowable reimbursement for personal telephone calls from five minutes per day to one dollar per day.
 Specifies the method for calculating personal vehicle mileage reimbursement for travel from home to temporary work locations.
- Rule 7-3 Expiration and Rollforward of Appropriations
 Adds an exception for Juniper Valley Products delivered within 60 days of fiscal year-end.
- Rule 8-3 Cost Allocation Plans
 Eliminates the agency requirement to prepare a formal agency cash plan and establishes documentation requirements for indirect costs included in agency cash funded program fees.

Division of Wildlife Enterprise Status

With the passage of HB01-1012, the Division of Wildlife (DOW) within the Department of Natural Resources has been designated as a TABOR exempt enterprise effective July 1, 2001. Any state agency doing business with the division should now record revenue received from DOW as non-exempt revenue on COFRS. The COFRS agency code for the division is PBA. See Chapter 5, section 6 of the Fiscal Procedures Manual for a discussion on TABOR reporting and how to record revenue received from a TABOR enterprise. Additional questions should be directed to your field accounting specialist.

State Fiscal Rule Training

The State Controller's Office is once again offering training on the State Fiscal Rules. This session will cover the same topics presented at the training offered last spring. Changes adopted as a result of the last fiscal rule hearing will also be discussed. The training will be held on Friday, November 9th starting at 8:30, at the Department of Military Affairs auditorium located in Englewood at 6858 S. Revere. Advance registration is required. Please visit the State Controller's website at: <http://www.sco.state.co.us/training/fiscaltrain1.htm> to register and obtain directions. There is no cost to attend the training. If you have questions, please contact your field accounting specialist.

Conversion of Use Allowance to Depreciation for Federal Allowable Cost Purposes

Agencies may desire to change to computing depreciation instead of use allowance to compute federal allowable costs for the use of capitalized assets in fiscal year 2002 because of the required implementation of GASB Statement 34. If this conversion is made, the following conversion process should be used:

- a.) Compute a depreciation schedule for the asset using the straight line depreciation method from the date that the asset was placed into service.
- b.) Subtract the calculated depreciation for the period from the date the asset was placed into service to the conversion date from the total cost of the asset to compute the pro forma bookvalue of the asset to be used for the conversion.
- c.) Using the depreciation schedule computed in step a.), record the annual depreciation for the remaining life of the asset from the conversion date using this schedule.
- d.) Compute the undepreciated/unamortized portion of the asset's cost that you were unable to record due to the conversion by subtracting the use allowance recorded to the conversion date from the depreciation to the conversion date computed in the depreciation schedule created in step a.).
- e.) Call your department's federal cognizant agency and negotiate a period over which the unamortized portion of the cost of the asset can be amortized.

Example:

Facts Relating to the Conversion:

Cost of the Asset = \$100,000

Asset purchase date (Date asset was placed into service) = July 1, 1995

Asset's Useful Life = 10 years

Date of Conversion from Use Allowance to Depreciation for the Asset = July 1, 2000

Depreciation Method Used to Calculate Depreciation = Straight Line Depreciation

Use Allowance Rate = 6.67%

Computation of Straight Line Depreciation and Accumulated Depreciation to Conversion Date:

Straight Line Depreciation per Year = $\$100,000 / 10 \text{ years} = \$10,000$ per year for the period from July 1, 2000 to June 30, 2005

Accumulated depreciation from the date the asset was placed into service to the date of conversion = $\$10,000 \times 5 \text{ years} = \$50,000$

Computation of the Use Allowance Recorded for the Asset for the Period from July 1, 1995 to June 30, 2001

Use Allowance = $.0667 \times \$100,000 \times 5 \text{ years} = \$33,350$

Computation of the Unamortized Cost of the Asset Not Recorded as an Expenditure Due to Conversion

Unamortized Cost of the Asset not Recorded as an Expenditure Due to Conversion = $\$50,000 - \$33,350 = \$16,650$ (Amount to be negotiated for amortization with the cognizant agency)

This conversion process was developed based upon the State Controller's Office research of the federal regulations that control the conversion from use allowance to depreciation. The

federal regulation for state agencies and higher education institutions are similar. This conversion process should be used by higher education institutions and non-higher education departments. This process was discussed with the State of Colorado's federal negotiator at the U.S. Department of Health and Human Services. The federal negotiator confirmed the process as the guidance that they would have given in implementing the conversion from use allowance to depreciation. The federal negotiator indicated that they would generally allow the unamortized portion of the cost of the asset to be amortized over a period that equals the life of the asset.

More aggressive approaches may be viable, but they are not being recommended by the State Controller's Office.

In addition to the discussions with the federal negotiator, the recommendation for the process that is to be used for the conversion from use allowance to depreciation is based upon the following segments of the following authoritative documents:

OMB Circular A-87, Attachment B, paragraph.15.e: -- "When the depreciation method is introduced for application to an asset previously subject to a use allowance, the annual depreciation charge thereon may no exceed the amount that would have resulted had the depreciation method been in effect from the date of acquisition of the asset." "The combination of use allowances and depreciation applicable to the asset shall not exceed the total acquisition cost of the asset or fair market value at time of donation.

U.S. Department of Health and Human Services Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10, Part 3 Section 3.3 -- "When converting from use allowance to depreciation, the balance to be depreciated will be computed using a pro forma depreciation schedule starting with the date of acquisition."

U.S. Department of Health and Human Services Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10, Part 3, Question and Answer 3-30:

Question: "Where a governmental unit or component opts to change from use allowance to depreciation, how is this conversion to be handled?"

Answer: "In accordance with Attachment B, Paragraph 15.e, the asset's imputed book value at the time of conversion is to be established by assessing pro forma depreciation for those periods when use allowance was applicable, i.e., from to date of acquisition. The remaining balance is then depreciated over the remaining useful life."

OMB Circular A-21, paragraph J.12.b.(3) -- "Where the depreciation method is introduced to replace the use allowance method, depreciation shall be computed as if the asset had been depreciated over its entire life (i.e. from the date the asset was acquired and ready for use to the date of disposal or withdrawal from service). The aggregate amount of use allowances and depreciation attributable to an asset (including imputed depreciation applicable to periods prior to the conversion to the use allowance method as well as depreciation after the conversion) may be less that, and in no case, greater than the total acquisition cost of the asset."

If you have any questions, please call Dennis Palamet at (303) 866-3240 or E-mail Dennis Palamet at dennis.palamet@state.co.us.

Temporary Agency Assignments for FAST

Due to the appointment of Linda Bradley as the Acting Deputy Director, the agency assignments held by Linda have been temporarily reassigned to other FAST members. The revised listing of agency assignments is below.

Field Accounting Services Team (FAST) Agency Assignments

(Updated 09/26/01)

ROGER CUSWORTH	866-3891
PERSONNEL	G AXX
AGRICULTURE	G BXX
PUBLIC HEALTH & ENV	D FXX
CU	B GFA-GFE
COMM. COLLEGES	G GJA-GJT
AHEC	B GMA
LAW	D LAA
HUMAN SERVICES-NON MEDICAID	D IXX
CONTROLLER	D 999

BOB HABERKORN	866-2626
EDUCATION	G DXX
SBA UNIVERSITIES	R GGA-GGJ
MINES	R GLA
CHILDREN'S TRUST	R GNA
TRANSPORTATION	G HAA
PUBLIC SAFETY	G RAA
REGULATORY AGENCIES	R SXX
REVENUE	D TXX

DAVE GRIER	866-4161
STATE COLLEGES	B GHX
JUDICIAL	R JXX
LABOR & EMPLOYMENT	D KAA
LEGISLATIVE BRANCH	R MXX
LOCAL AFFAIRS	R NAA
MILITARY AFFAIRS	D OXX
SECRETARY OF STATE	D VAA

DIANNE STUMP	866-3890
CORRECTIONS	R CXX
GOVERNOR'S OFFICE	R EXX
CCHE/PRIV OCC ED	R GAA/GPA
ARTS & HUMANITIES	R GBA
HISTORICAL SOCIETY	R GCA
STUDENT LOAN	R GDA
UNC	B GKA
CO STUDENT OBL LOAN AUTH	R GRA
HUMAN SERVICES-MEDICAID	R IXX
NATURAL RESOURCES	R PXX
HEALTH CARE POLICY & FIN	R UHA
TREASURY	R WXX

FIELD ACCOUNTING SERVICES ACCOUNTANT	
DOTTIE RELAFORD	866-4165

Back up persons are noted by the letter
in the column to the right of the agency name.

Bob Haberkorn	B
Dianne Stump	D
Roger Cusworth	R
Dave Grier	G