Information Technology Systems and Cost Allocation

Presented on behalf of HSFO

October 22-24, 2019
Agenda

• Federal Guidance Related to System Development and Management
• Advance Planning Documents (APDs)
• Aligning APDs with Cost Allocation
• CCWIS Cost Allocation Considerations
• OIG Audits & DAB Rulings
Federal Guidance Related to System Development and Management

- This presentation is meant to discuss how to identify and allocate costs related to systems development and major costs that are part of advance planning documents (APDs).

- 2 CFR Part 200 describes an information technology system as “computing devices, ancillary equipment, software, firmware, and similar procedures, services (including support services), and related resources (200.58).

- Information technology systems are classified as general purpose equipment (200.48) for the purpose of determining allowable costs for federal grants under the cost principles (2 CFR Part 200 subpart F).
  - General purpose equipment is unallowable as a direct charge, except with the prior written approval of the Federal awarding agency (200.439).
    - **Examples**: Immunization Registry System, MMIS, Child Support Enforcement System, CCWIS.

- General purpose equipment is unallowable as indirect costs but may be depreciated in accordance with 200.436. **Examples**: Accounting, payroll, and employee help desk systems.

- Generally these are the initial or major enhancement purchases, whereas ongoing expenses below certain thresholds may be direct or indirect as appropriate.
• Key depreciation requirements (200.436) include:
  • Depreciation must be based on the useful service or useful life of the asset.
  • Once a depreciation method is selected it may not be changed unless approved in advance by the cognizant agency.
  • Depreciation is not allowed on any assets that have outlived their depreciable lives.
  • Charges for depreciation must be supported by adequate records and periodic physical inventories.

• When information technology systems benefit the entire agency or multiple federal and state programs costs must be allocated fairly and equitably to all benefiting objectives.
Federal Guidance Related to System Development and Management (cont.)

• Public assistance programs subject to federal and state match requirements must obtain prior approval for information technology projects under certain criteria (45 CFR Part 95 Subpart F).

• The following programs are required to obtain prior approval through submission of an advance planning document (APD):
  • Title IV-B – Child Welfare
  • Title IV-D – Child Support Enforcement
  • Title IV-E – Foster Care and Adoption Assistance
  • Title XIX – Medicaid
  • Title XXI – Children’s Health Insurance Program (CHIP)
  • Supplemental Nutrition Assistance Program (SNAP)

• TANF, CCDF, and other federal programs benefiting from an integrated information technology system are not be required to submit an APD for approval but they must be included in the APD cost allocation schedule to ensure costs of the project are allocated to all benefiting programs.
Advance Planning Documents (APDs)

- The ADP is a written plan to request funding for a project that includes an automated data processing system or services when the project meets the following criteria:

<table>
<thead>
<tr>
<th>Advance Planning document to request prior approval for design, development, and implementation costs per 45 Part 95 Subpart F</th>
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<tbody>
<tr>
<td>Information Technology Equipment and/or Services Total Acquisition Cost is $5,000,000 or more (SNAP has additional requirements)</td>
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<tr>
<td>Information Technology Equipment and/or Services regardless of acquisition cost if enhanced FFP is being requested (If authorized by 42 CFR 433,C contracts exceeding $500,000)</td>
</tr>
<tr>
<td>Information Technology Equipment and/or Services with total acquisition cost between 1,000,000 and 5,000,000 if contract is sole source</td>
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Advance Planning Documents (APDs) (cont.)

- APDs are essentially "proposals" to relevant cognizant agencies requesting funding.
- APDs must include all costs associated with the effort to obtain federal reimbursement:
  - Direct staff costs
  - Contracted services
  - Hardware
  - Software
  - Training
  - Indirect costs
  - Supplies
  - Miscellaneous costs
  - Include cost allocation methodologies as appropriate
- **APDs must be coordinated with cost allocation plans; they are not stand alone funding sources.**
- CAPs and portions of APDs are duplicative and therefore cannot contradict each other.
Advance Planning Documents (APDs) (cont.)

- Planning APD (PADP) – written plan to demonstrate the need for the information technology and the projected cost. A PADP must be submitted to receive reimbursement for planning activities.

- Implementation APD (IAPD) – comprehensive written plan for the design, development, and implementation of the project that includes the following elements:
  - Statement of need
  - Summary of requirements analysis
  - Project management plan
  - Project budget
  - Proposed cost allocation for project (must include all benefiting objectives)
  - Proposed activity schedules
Advance Planning Documents (APDs) (cont.)

- Annual APD update – provides an update of the overall project status and request for continued federal funding.
- As needed implementation APD update (IAPDU) – provides information regarding significant changes in project plan, timeline, procurement activity, budget, or cost allocation proposal.
  - When the basis for allocating costs in the APD changes significantly the APD must be revised with the new budget and cost allocation proposal.
  - The CAP must also be updated.
- Operational APD (update) – annual update once the system is operating to provide status of operation and maintenance activities, budget, and cost allocation of the operational costs.
  - Required for all projects including MMIS and eligibility systems.
  - CMS issued specific requirements for the OAPD to request enhanced funding for eligibility workers including a template format for the OAPD.
Advance Planning Documents (APDs) (cont.)

• APD Preparation Resources:

  • The Collaborative Application Lifecycle Tool (CALT) which now has a dedicated HHS Integration Community to allow states to share APDs, acquisition docs and IT docs that could serve as models and be reused. Introduced a State Medicaid Director Letter dated July 20, 2015. [https://calt.cms.gov/sf/sfmain/do/home](https://calt.cms.gov/sf/sfmain/do/home)
Advance Planning Documents (APDs) (cont.)

- APD Preparation Resources: (cont.)
  - The U.S. Digital Services playbook is a valuable resource to consider for best practices in IT development. [https://playbook.cio.gov/](https://playbook.cio.gov/)
    - Provides guidance for governments to implement information technology projects that work well and are completed on time and within budget based on best practices of private industry.
  - DHHS, ACF, and CMS, State Systems APD Guide updated October 2010 provides guidance on preparing an APD. [https://www.acf.hhs.gov/sites/default/files/ocse/apd_guide_2.pdf](https://www.acf.hhs.gov/sites/default/files/ocse/apd_guide_2.pdf)
- These tools are guidance, not requirements.
Advance Planning Documents (APDs) (cont.)

• APD Approval and Monitoring:
  • APDs for information technology system projects that benefit a single federal program must be submitted to the applicable federal agency responsible for the program.
  • For information technology system projects benefiting multiple federal programs, APDs must be submitted to each federal agency administering federal programs funding for the project.
  • The state must receive approval from each federal agency prior to drawing down any federal funds for the project.
  • Federal agencies are responsible to conduct periodic reviews of information technology projects to monitor progress and assure the objectives of the project are being accomplished.
Advance Planning Documents (APDs) (cont.)

• APD Approval and Monitoring (cont.):
  • The federal agency closely monitors the APD budget with actual project costs to ensure actual spending aligns with the APD budget.
  • The APD budget must be promptly updated as better data becomes available that significantly changes the allocation of project costs to funding sources.
  • CMS now requires the APD to list key state personnel assigned to the project by name, title, and time commitment.
Aligning APDs with Cost Allocation

• Proper accounting and tracking of information technology costs is critical for budgeting and federal reporting and claiming of information technology projects.

• Certain federal programs require information technology costs to be reported separately in the federal financial status report.

• Programs usually require separate reporting of development and operational costs.
Aligning APDs with Cost Allocation (cont.)

• IT project management and fiscal operations must work closely together to determine APD project staffing needs and costs for contracted services to develop APD budgets.

• Staff responsible for the CAP should be involved in developing and updating the APD cost allocation proposal.

• Once an APD is approved, the IT project management, fiscal operations, and CAP staff must work together to establish proper account coding to be used for tracking project costs.
Aligning APDs with Cost Allocation (cont.)

• Cost allocation methodologies included in the APD must be updated or recalculated as new information becomes available that significantly change the proposed cost allocation for the project.
  • This issue is noted in recent OIG reports.

• The state agency should work closely with their federal partners to monitor APD project budgets and quarter to date costs when adjustments are made.
Aligning APDs with Cost Allocation (cont.)

- The various changes under health care reform led many states to upgrade their eligibility systems beyond those changes required under the Medicaid program.
- CMS, ACF, and the USDA Food and Nutrition Service, announced a waiver of certain OMB A-8,7 and the superseding Uniform Guidance, cost allocation requirements for the design and development of State integrated eligibility-determination systems.
- The waiver allowed states to maximize the 90% FFP related to Medicaid by taking advantage of the waiver to develop an integrated eligibility system.
- The waiver is now expired and prior cost allocation methodologies under the waiver must be updated.
Aligning APDs with Cost Allocation (cont.)

• On April 25, 2013 (with update in March 31, 2016) CMS provided information on certain Eligibility and Enrollment costs eligible for the enhanced 75% FFP.
  • The guidance allows for the 75% FFP for staff performing functions and activities to operate the Eligibility and Enrollment system, consistent with how the funding applies to staff operating the MMIS.
  • Only certain activities performed by staff are eligible for 75% FFP; others are still reimbursed at 50%.
  • The enhanced funding is only related to Medicaid.
  • Eligibility staff need to be time studied to ensure proper claiming.

- Much guidance has been released regarding CCWIS APDs and cost allocation considerations.

- Particular consideration should be given to CCWIS Technical Bulletin #5 in regard to cost allocation.

- CCWIS cost allocation methodologies must be included (and aligned) in both the agency CAP and APD submissions.
  - Both CCWIS and non-CCWIS costs may qualify for Title IV-E FFP at the 50% rate; however, for CCWIS cost allocation a higher percentage costs may be eligible for Title IV-E FFP when compared to the same costs under a non-CCWIS.

<table>
<thead>
<tr>
<th>Costs can be allocated to Title IV-E if costs benefit…</th>
<th>Title IV-E funded participants in Title IV-E programs and activities</th>
<th>State or tribal funded participants of programs and activities described in Title IV-E</th>
<th>Title IV-B Programs</th>
<th>Both Title IV-E and child welfare related programs (APS and Juvenile Justice)</th>
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</thead>
<tbody>
<tr>
<td>CCWIS Development</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td>CCWIS Operational</td>
<td>✔</td>
<td>✔</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Non-CCWIS (development and operational)</td>
<td>✔</td>
<td>X</td>
<td>X</td>
<td>X</td>
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CCWIS Cost Allocation Considerations (cont.)

System Requirements:
- CCWIS must meet 1355.52 – the CCWIS project requirements
- For transitioning S/TACWIS or non-S/TACWIS – All CCWIS automated functions developed after July 31, 2018 must meet CCWIS design requirements
- For new CCWIS – All automated functions must meet CCWIS design requirements

Automated Function Requirements:
- Supports programs authorized under Titles IV-B or IV-E, and at least one requirement of 1355.52 or, if applicable 1355.54
- Is not duplicated within the CCWIS or systems supporting child welfare contributing agencies
- Is consistently used by all child welfare users responsible for the area supported by the automated function
OIG Audits & DAB Rulings

- Numerous Office of the Inspector General (OIG) Audits and Departmental Appeals Board (DAB) Rulings have an impact on the cost allocation of information technology costs. The following table highlights a few recent reports.

- PCG is not commenting on the substance or outcome or whether the state agreed with the findings but rather the issue raised by including these reports.

<table>
<thead>
<tr>
<th>Report Number</th>
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<td>DAB A-12-128, Docket 2518</td>
<td>New Jersey DHS was cited for claiming enhanced Medicaid 75% FFP available for costs of staff who were not performing tasks directly attributable to the functioning of the MMIS. The enhanced funding is only available for costs of staff performing tasks directly attributable to operating the MMIS.</td>
<td>The DAB upheld the decision citing the enhanced 75% FFP is available only for costs which would not be incurred but for the operation of the MMIS. The DAB recognized the difference between “actually operating” an MMIS, eligible for enhanced FFP, and merely using the information from the MMIS which is not. The staff in question were performing tasks that did not qualify as actually operating the MMIS.</td>
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# OIG Audits & DAB Rulings (cont.)

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| OIG A-01-14-02503 | Maryland DHMH did not allocate millions of shared information technology costs to Establishment Grants and Medicaid in accordance with federal requirements. Issues included allocating costs on the basis of a cost allocation methodology that did not get updated when better data became available and allocating costs based on a method that included a “material defect. States are expected to update their APD cost allocation methodology and plan based on updated or better data and if there is a substantive change in program participation. | • The OIG recommended refunding millions of Establishment Grant funds allocated on the basis of a methodology that was not updated when better data became available.  
• Refund millions in federal Establishment Grants funds for using a methodology that included a material defect.  
• Amend the CAP and the Advance Planning Document so that allocated costs correspond to the relative benefits received.  
• Develop written policies to properly allocate costs and oversee operations to ensure errors are identified and costs are properly allocated. |
# OIG Audits & DAB Rulings (cont.)

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| OIG A-01-15-02500 | Vermont AHS did not always follow Federal requirements for allocating costs to its Establishment Grants. The State agency allocated millions using a cost allocation methodology that included a material defect, may not have allocated millions in costs in accordance with the relative benefits that each grant program received, and drew down establishment grant funds that exceeded actual program costs. | • Work with CMS to determine what portion of the costs were properly allocated and refund any unallowable amount.  
• Amend the CAP for changes to cost allocation methodologies.  
• Develop policies and procedures that explain how to develop a CAP based on the relative benefits received and when to reassess and revise the CAP and related allocations on a retroactive or prospective basis.  
• Ensure that procedures are in place and the updated policies are followed for the reconciliation of reported grant expenditures and drawdowns to cumulative actual spending. |